

FINANCIAL TIMES

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The day the doors
stayed shut
in Ohio, Page 14

World news

Business summary

Athens fails to elect President

The Greek parliament failed in the first round to elect Mr Christos Sartzetakis, candidate of Pasok, the ruling Socialist Party, as president of the republic.

Mr Sartzetakis, a Supreme Court judge, needed a two-thirds majority in the 300-member parliament to get into the first of three rounds of voting, but only 178 MPs voted in his favour.

The result was disconcerting for the Government because it fell short of the 180 majority that would suffice to get Mr Sartzetakis elected in a third round on March 29, Page 16

Hijacker shot

A hijacker who seized a Saudi Arabian Boeing 737 airliner over Riyadh was shot dead by a security guard aboard the aircraft, the Gulf News Agency reported.

Belgian protest

Anti-nuclear campaigners held a rally in Brussels called on the Belgian parliament to throw out the Government for having installed cruise missiles.

Missile offer

A Dutch farmer offered the Soviet Union his land as a site for SS-20 rockets should the Netherlands decide to deploy cruise missiles.

EEC opposed

The Liberation Movement for the Canary Islands said it opposed Spain's policy of making the islands and two Spanish enclaves in Morocco part of the EEC.

Tough expectations

Nigel Lawson, UK Chancellor of the Exchequer, is expected to present a tough budget tomorrow, emphasising the need to control inflation and attain financial targets, Page 6

Pretoria budget

Barend du Plessis, the South African Finance Minister, will present what is widely considered to be the most important but difficult budget for decades, Page 2

Price freeze

China published guidelines aimed at halting unauthorised price rises. The country is switching from strict central planning to a form of market economy.

Police drug ring

Six police officers in Sydney, Australia, are to be charged in relation to the alleged resale of A\$750,000 (\$321,000) worth of seized cannabis.

Police chief quits

A police chief in the northern Spanish city of Leon resigned after 300 of his men held a sit-in at their barracks to demand his dismissal, accusing him of "intolerable mistreatment and coercion" against them.

Algarve clampdown

Portugal is to increase police patrols and use a helicopter to combat crime in the Algarve region, a popular tourist area.

Accord revived

The Namibian accord signed between South Africa and Mozambique a year ago has taken on a new lease of life after high-level talks between the two sides, Page 2

Meningitis outbreak

More than 250 people died in an epidemic of meningitis that has swept parts of northern India.

Singapore chief ill

Singapore's President Devan Nair is responding slightly to treatment he is believed to be suffering from a serious liver condition.

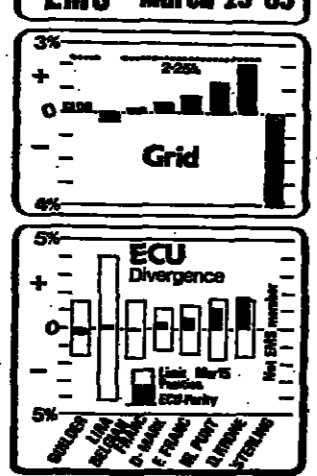
Cycling record

Australia's Dean Woods broke the world record for the 4,000 metres cycling with a time of 4 min 34.653 sec.

Gandhi to introduce major tax cuts

MR RAJIV GANDHI, the Indian Prime Minister, introduced major cuts in personal and corporate taxation and a wide-ranging relaxation of industrial controls in an attempt to stimulate investment. India is heading for a near-record budget deficit of Rupees 33,480bn (\$2,57bn) for 1985-1986, Page 2, 16

EMS March 15 '85



Fed in emergency talks over Ohio savings banks

BY PAUL TAYLOR IN CINCINNATI AND WILLIAM HALL IN NEW YORK

U.S. FEDERAL bank regulators, commercial bankers and Ohio State officials were still locked in emergency negotiations yesterday seeking a quick solution to the savings-bank crisis that has engulfed the Mid-western state. However, as talks continued throughout the weekend, doubts were increasing that the 71 local savings banks would be permitted to reopen today.

Since Friday morning when Mr Richard Celeste, the Governor of Ohio, ordered a three-day "bank holiday" to stem a run on the 54bn deposits of Ohio's 71 state chartered savings banks, officials have been working round the clock. Their aim has been to reopen the banks today and to alleviate the growing hardship being felt by more than half a million savers whose money has been frozen.

Ohio's move, thought to be the first in which a state has ordered such an extended "bank holiday" since the 1930's great depression, has already sent shockwaves through the U.S. financial system and might cause further nervousness in the U.S. financial markets if the savings banks fail to reopen today.

The crisis has underscored the vulnerability of the U.S. banking system to unexpected shocks. Officials hope that by reopening the

banks as quickly as possible, it may restore confidence among the small depositors and prevent the panic withdrawals from spreading.

Such concerns spurred hundreds of federal bank examiners to descend on Ohio at the weekend in an attempt to contain the crisis, something they still hope to achieve. Several options are being looked at, including the extension of federal deposit insurance coverage to the closed banks, and a takeover by either a big money-centre bank or a local bank consortium.

Nevertheless, after almost 48 hours of continuous talks, Governor Celeste told reporters that there had been little progress.

Governor Celeste said he could give no guarantee when the savings banks would reopen.

The 44-year-old Ohio Governor, who has emerged as a central figure in the race to rescue the banks, said: "We are doing everything to get them open as soon as possible." However, he added that the savings banks would reopen only at a point "where we have confidence that they can command the confidence of depositors."

Among the principal developments at the weekend:

- About 200 federal bank examiners arrived in Ohio to pore over the books of the thrifts to discover

whether, and under what conditions, they would be eligible for federal insurance. The 71 savings banks were covered by a private, state-backed insurance fund, the Ohio Deposit Insurance Fund (ODIF), whose reserves have been seriously depleted by the collapse of Home State Savings and Loan, its biggest member, 10 days ago.

- Negotiations continued in an attempt to find a buyer for Home State, the \$1.4bn Cincinnati savings bank that was forced to close after the collapse two weeks ago of CSM Government Securities, a small Florida bond dealer. Home State is owned by Mr Marvin Warner, aged 67, whose financial empire stretches from Florida to Ohio and has been badly affected by the collapse of CSM Government Securities.
- Citicorp, America's biggest banking group, flew in a team of officials to examine Home State's books ahead of a possible rescue attempt. Meanwhile, the Ohio State Senate stood ready to convene an emergency session, should changes in state banking laws be required to facilitate an out-of-state takeover.

Continued on Page 16

The day the doors stayed shut, Page 14; Flight to quality, Page 18

Mexico to absorb part of public sector debt

BY DAVID GARDNER IN MEXICO CITY

THE MEXICAN Government is to take over part of the domestic and foreign debt of loss-making public sector companies, which in exchange will have to submit to strictly monitored performance.

The Government is also considering an unprecedented scheme to allow the foreign creditors of some public sector companies to convert debt into equity.

Senior Mexican financial officials said the plan to lighten public sector companies' debt burden is part of a wider effort to enforce much stricter controls on public spending and to reduce the country's budget deficit.

The companies affected are likely to include Conasupo, the state food production and distribution company, Fertimex, the state fertiliser company, the railways and electricity board, and possibly the Mexico City administration, the DDF.

In return for having their debts wholly or partially written off, these companies will be obliged to stick to agreed financing and performance targets. These will be reviewed by inter-ministerial teams every two weeks at director-general level, once a month at under-secretary level and quarterly by the main economic ministers.

The performance criteria will differ from case to case since a company like Conasupo is essentially a subsidy window for feeding the poor, while the DDF heavily subsidises Mexico City public transport.

In all cases, however, the intention is sharply to reduce fiscal transfers to the public sector, where spending last year exceeded targets by a full 2.7 per cent of GDP, partly because of higher interest payments.

The size of the public deficit became an issue between Mexico and the IMF in the drawn-out negotiations on this year's letter of intent on Mexico's austerity programme, expected to be signed shortly. Last year's deficit is put privately by officials at around 7.4 per cent of GDP, down from 8.7 per cent in 1983, and 18 per cent in 1982, the year of Mexico's financial crisis. The target in this year's budget was set at 5.1 per cent, against the original target of 3.5 per cent agreed with the Fund.

The debt write-off move complements an existing scheme designed by the Bank of Mexico to protect private dollar debtors from exchange rate fluctuations. It is the

latest in a series of moves to reorganise and tighten public finances which followed September's agreement in principle on a multi-year restructuring of \$48.7bn of Mexico's \$89bn foreign debt.

These moves include:

- November's overhaul of the deficit financing system, with the introduction of the public sector borrowing requirement concept and a strengthened role for the Bank of Mexico;
- February's 250bn peso (\$1.25bn) spending cuts and divestiture of 238 "non-strategic" public sector companies; and
- The recent introduction of a so-called "compensation cabinet," controlled by the Treasury, whereby incoming revenues and fiscal transfers to public sector concerns are passed on as net sums, after creditors and suppliers have been paid.

The more tentative scheme to allow foreign creditors to capitalise loans to some public sector companies is likely to inflame nationalist sentiment, which strongly opposes the divestiture programme as well as last year's return of 339 companies held by the nationalised banks to former bank shareholders.

Argentine debt talks, Page 3

Britain, U.S. and Canada seek common terms on share issues

BY DAVID LASCELLES, BANKING CORRESPONDENT, IN LONDON

BRITAIN, the U.S. and Canada are considering ways to standardise procedures for securities issues to make it easier for companies from these countries to raise finance in each other's markets. One proposal is for a "common prospectus" that would be acceptable in all three.

Exploratory talks will take place this week in London between Mr John Huber, a senior official of the U.S. Securities and Exchange Commission (SEC), and representatives of London markets.

The initiative for trying to harmonise issuing practices was taken by the SEC because of the growing interest by foreign corporations in raising debt and equity finance in the U.S.

Last year's flotation of British Telecom and Reuters on both the

London and Wall Street markets highlighted the growing trend towards multinational share offerings. They also exposed, however, the different standards on disclosure and pre-issue publicity that exist in the UK and the U.S.

The SEC has prepared a discussion document as the basis of talks with the UK and Canada, the two countries which are most deeply involved in the U.S. capital markets, and whose practices most closely parallel its own.

The points for discussion will include:

- Methods of underwriting and distribution;
- Disclosure of information about the issuer of securities;
- Accounting standards;

- The possibility of reciprocity.

The U.S. would like to have a common prospectus which meets disclosure requirements in all countries and would therefore save issuing companies an enormous amount of paperwork. This would enable a flotation or a rights issue to be mounted in three markets simultaneously with a single offer document.

The SEC accepts, however, that the UK and Canada have standards that are less rigorous than its own and may not be willing at this stage to force companies to reveal more about themselves. It is therefore proposing that foreign registration statements be acceptable in the U.S. so long as their deviations from U.S. standards are clearly noted.

Iranian advance threatens to sever key route

By Roger Matthews, Middle East Editor, in London

IRAQ and Iran both reported continued fierce fighting yesterday in what seems certain to prove one of the decisive battles of the 33 month old Gulf war.

Iranian forces are battling to consolidate their 25-kilometre advance into Iraq which is threatening to sever the main road from the capital, Baghdad, to Basra, Iraq's second largest city.

Iraq admitted yesterday that Iranian troops had briefly crossed the Tigris river, which runs just east of the road, but claimed that the advance was being thrown back in a series of counterattacks. A military communiqué from Baghdad said two Iranian bridges across the river had been knocked out.

The intensified land war was accompanied yesterday by further attacks on tankers in the Gulf, air strikes against major cities and a warning by Iraq that civil airliners which enter Iranian airspace could be at risk.

Iran launched its offensive a week ago using helicopters and amphibious craft to penetrate the marsh area north of Basra in what seemed initially to be a probing attack. But the success of the advance encouraged Iran to pour in additional troops and intensified speculation that it might be preparing for what it has termed the "decisive offensive."

The loss of the main road to Basra would be a serious blow to President Saddam Hussein of Iraq, who can be expected to use every weapon at his disposal to force the Iranians to withdraw.

Iraq claimed yesterday to have killed 15,000 Iranians on Saturday alone. Iran put Iraqi losses at 7,000 since the offensive began. Both sides are also saying they have taken large numbers of prisoners.

In the Gulf, the Liban-registered tanker Caribbean Breeze, 109,752 gross tonnes, was attacked early yesterday by an Iranian aircraft 16 miles north of Bahai Island, east of Qatar. The vessel, loaded with 1.8m barrels of Kuwaiti crude oil, initially caught fire but the blaze was later extinguished. At least 10 of the crew were hurt in the attack, including the British master.

Iraq said its aircraft had hit "two large naval targets" south of Kharg Island, Iran's main oil terminal. There were indications that a tanker and a supply vessel may have been hit but there was no immediate independent verification.

Iraq has also kept up its bomb

Andreotti calls for final EEC entry stance

BY QUENTIN PEEL IN BRUSSELS

SIG GIULIO ANDREOTTI, the Italian Foreign Minister, yesterday called on his EEC colleagues to spell out their final positions for the membership negotiations with Spain and Portugal. He is seeking to draft a community package on all outstanding issues by today.

He held a series of grueling bilateral "confessionals" with fellow foreign ministers seeking last minute concessions on the key areas of fisheries, agriculture and social affairs which still have to be resolved with the applicant states.

The meetings came after the presentation by the Italian president of a new document on how to incorporate the huge Spanish fishing fleet into the Common Fisheries Policy (CFP).

This is the problem regarded as the toughest remaining on the table. Officials were hopeful last night that the compromise would be widely acceptable to the ten.

At the same time the ministers were presented with initial calculations on the financial package to be offered Spain and Portugal to ensure that they are not net contributors to the Community budget in the first years of membership.

The figures suggested that Spain should be reimbursed more than Ecu 1bn (\$648m) in 1986 - about 85 per cent of its Vat-based contributions - with steadily declining amounts over the following five years. Portugal would get a 50 per cent rebate in the first year and thereafter be considered a net beneficiary if the proposals are approved.

The commission's calculations take into account the tough terms being put forward by the present ten EEC members which the latest internal discussions are attempting

to knock into a more acceptable package for Spain and Portugal.

The fishing proposals, however, are relatively close to the hard-line position of the five leading fishing nations - Britain, Denmark, France, Ireland and West Germany - which are determined to prevent their own fleets being swamped by Spanish boats.

They suggest that Spain should be allowed access only to the waters where its boats already fish - essentially north and west of Britain and Ireland but excluding the "Irish box" of waters immediately around Ireland, and in the Bay of Biscay - although with improved quotas and licences, for the same fish species. The deal would last for the remaining 17 years of the CFP, although the presidency compromise proposes a review after 1992.

West Germany appeared last night to be taking a less tough position on the issue, than the other four fishing states, with officials expressing concern that the package would still be completely unacceptable to Spain.

Sig Andreotti is due to meet both Spanish and Portuguese negotiating teams this morning to present the EEC position with a deadline of Wednesday night to conclude what is supposed to be the final round in the extended enlargement negotiations.

However, Britain still has problems on the social affairs dossier because of concern at the possibility that after accession Spanish workers' families could flood the labour markets in Gibraltar.

France and Italy still have worries about the agricultural exports of Spain, while West Germany fears that the proposed regime for olive oil will be too generous, allowing yet another farm sector to produce an unsaleable surplus.

Right continues to gain in France

BY PAUL BETTS IN PARIS

THE SHIFT to the Right in the French electorate was confirmed last night in the second round of cantonal or local elections involving about 12m voters or roughly a third of the French electorate.

The right had already captured three new district councils in the first results after the polls closed at 8pm. The right is hoping to capture at least 15 district councils from the left to confirm its success, while the

left is hoping to contain the damage to about 10 district councils.

The first computer forecast showed a very modest improvement by the left-wing parties in the second round compared with the first round last Sunday. The left saw its performance improve by a meagre 1.5 per cent in 1,200 cantons compared with the vote in the first round in these areas.

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Int'l Capital Markets: Survey Section III

Shultz lends weight to Reagan hint at superpower summit

BY STEWART FLEMING IN WASHINGTON

MR GEORGE SHULTZ, the U.S. Secretary of State, reiterated yesterday the Reagan Administration's view that the time is right for a summit meeting between the U.S. President and the Soviet leader, Mr Mikhail Gorbachev, when asked if the U.S. had received a response from Moscow to its suggestion made last week that a summit should be held, Mr Shultz said: "Not really."

In pressing the case for such a meeting, Mr Shultz said that "quite a lot" had been done to prepare for such a summit in discussions held between the U.S. and the Soviet Union, including those continuing presently in Geneva.

It would be timely, in view of the accession of a new leader in the Soviet Union and the commencement of a second term for President Reagan, for the two superpower leaders to meet, Mr Shultz said.

France and UK in talks on closer hi-tech ties

BY JASON CRISP IN LONDON AND DAVID MARSH IN PARIS

A TOP-LEVEL meeting of French and British electronics companies needs to meet competition, the best and government officials is to be held in Paris this evening to encourage closer co-operation.

The informal meeting is the result of an initiative by the British Government which wants to see greater European collaboration in the electronics industry.

Mr Geoffrey Fiddes, the British Information Technology Minister, and M Louis Mexandran, the French Telecommunications Minister, will be at the meeting at the British ambassador's residence.

The British industrialists at the meeting will be Sir John Clark, chairman of Plessey, Sir Kenneth Cornhill, chairman of Stannard, and Sir Colin Southgate, a director of Thorn EMI, and Mr Philip Hughes of Logica, the software company. The French will be represented by M Jacques Stern of Bull, the French computer group, and executives from Thomson, Compagnie Generale d'Electricite and Cap Gemini Societe.

Although there is no formal agenda for the meeting it is understood that the British hope to talk about collaboration between the two countries in electronics and computing in order to meet the growing competition from the U.S. and Japan.

The broad areas of discussion are:

• The meeting follows the recent failure of the French-inspired efforts to agree reciprocal trade agreements in telecommunications which resulted in bitter recriminations.

British officials hope to avoid the subject of telecommunications at this evening's meeting and concentrate on computers and electronics. However, the French would like to discuss joint industrial programmes in videotex, cashless shopping (using the French-invented "amarc" electronic payment card) and mobile telephones.

Some of the British industrialists are also expected to raise the problems of trading in France which, they argue, is particularly difficult for foreign-owned companies.

There is also some scepticism as to the likelihood of real collaboration between the two countries.

The French have also been pressing for some participation in Britain's Alvey research programme in the fifth generation of computers. Mr Brian Oakley, head of the Alvey directorate, will also be at the dinner. ICI, the British mainframe computer group bought last year by STC, Bull and Siemens of West Germany are working together on advanced computer research.

Mr Shultz is expected to confirm in the next few days that he will be coming, Herr Gratz said.

The foreign ministers of Austria's neighbours, including West Germany, Italy, Switzerland, Lichtenstein, Czechoslovakia, Hungary and Yugoslavia have also been invited, as have the foreign ministers of Britain and France, two signatories of the state treaty.

The Austrian State Treaty and the ensuing constitutional law on permanent neutrality form the basis of the second Austrian Republic. Both are integral parts of the Austrian constitution.

These are mere technicalities, however: the true import of Sig Sindona's conviction lies in the fact that he is a quintessential representative of the sinister underside of Italian society finally being brought to justice.

On Friday the state prosecutor described Sig Sindona as being among the most dangerous criminal elements of Italian society.

Few Italians need to be reminded of Sig Sindona's many alleged ties with the Mafia, the banned P-2 Freemasons Lodge and his fugitive grand master, Sig Licio Gelli.

For the late Sig Roberto Calvi, chairman of the failed Banco Ambrosiano, Sig Sindona was first a mentor and then a fear-some enemy: for the Vatican, Sig Sindona was at one time a close adviser.

His power base was rooted in the secretive and dark para-state which flourished in recent decades. The rising generation of reform-minded Italian bankers and financiers regard Sig Sindona as one of the last of a nefarious club of manipulators which this country would like to forget.

He did not implicate senior Italian politicians, but Sig Sindona's return last September to Italy did set off a political storm which led to a parliamentary call for the resignation of Sig Giulio Andreotti, Foreign Minister and a former Prime Minister.

Sig Andreotti, condemned by several parliamentarians for his alleged ties to Sig Sindona, survived the resignation motion; but any prospects Sig Andreotti may have had as a potential candidate in this June's Presidential election are widely seen to have been damaged by the affair. Sig Sindona, for his part, described Sig Andreotti as "a friend."

Apart from the Andreotti affair, Sig Sindona last month accused a former chairman of IRI, the Italian state holding group, of having known about the embezzlement of £300m (£130.8m) of state funds. Sig Sindona, in doing so, disputed the word of Sig Giuseppe Petrilli, chairman of IRI from 1960 to 1979, who has denied knowledge of the embezzled funds. Sig Petrilli has received under investigation.

Trade tops Shamrock Summit agenda

THE CONTENTIOUS issues of free trade and acid rain are expected to dominate today's "Shamrock Summit" between President Ronald Reagan and Prime Minister Brian Mulroney of Canada.

President Reagan's visit to Quebec City will be his first to Canada since March 1981.

His 24-hour stay will include the signing of formal agreements between the two countries on Pacific salmon fisheries, co-operation between law enforcement authorities, and modernisation of North America's air defences.

Canada is pressing the U.S. to curb acid rain and begin talks on dismantling remaining trade barriers between the two countries, which are each other's largest trading partners.

President Reagan is expected to make some conciliatory gestures on both fronts without departing from the Administration's view that the acid rain issue requires more research, and that freer trade must also benefit U.S. exporters without interfering with Washington's multilateral trade obligations.

The Prava comments came after Mr Victor Karpov, the chief Soviet negotiator at Geneva, appeared on national television on Saturday and accused the U.S. of trying to revise the understanding about the role of space weapons at the talks.

His comments were the first such public comments since the Geneva arms talks opened last Tuesday and since Mr Mikhail Gorbachev became head of the Soviet Communist Party following the death of Mr Konstantin Chernenko.

There is little doubt that the Government had little choice but to act as it did: even the strongest Irish advocates of market forces bank at the thought of what would have happened had ICI gone under. The company was bought three years ago by Allied Irish Bank (AIB), Ireland's largest banking group, in an acquisition hailed as a useful diversification into the wider financial industry.

The bank has already lost £28m, or about a fifth of its total shareholders' funds, on the venture.

AIB might have survived the collapse of ICI had the Government not intervened, but its shareholders would have been impoverished and the bank could have ended up in a foreign ownership. Twenty-five per cent of employer's liability insurance in Ireland and all its export credits would have been left uncovered, and confidence in Irish financial institutions could have been damaged irreparably.

There is already some uncertainty following the liquidation of the state-owned Irish Shipping last year. Again, everyone agrees that the Government took the right decision but the move questioned the status of state-owned companies and the Government's attitude to foreign creditors. The only good to come from the ICI disaster may be the recognition that ultimately Irish financial institutions will be protected by the resources of the state.

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Brendan Keenan assesses the impact of Dublin's insurance disaster Irish count cost of an industry's failures

THE IRISH Government is now the embarrassed owner of two loss-making insurance companies and the final bill to the Irish citizen over the next 10 years could easily top £230m (£255.5m).

Two years ago emergency legislation was introduced to take over the country's largest motor insurer, PMPA (Private Motorists Protection Association), when it became clear the company was insolvent. The explanation then was that to do otherwise would have meant the collapse of the country's car insurance market: the same legislation has been used again, to prevent an even bigger disaster which might have threatened the stability of the Irish banking system.

If the PMPA experience is anything to go by, the final figures for losses at Insurance Corporation of Ireland (ICI), the subject of the latest rescue, will be larger than the present tentative forecasts. They will also be spread over many years as claims make their way through the legal process. This year's losses are estimated at £60m so the final figure could easily top £100m.

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Observers are now asking what can be done to prevent a similar occurrence. A few months ago, AIB injected £230m into ICI, apparently in the belief that this could be enough to restore profitability. Now the bank says it will sue ICI's former auditors, Ernst & Whinney, for at least £100m. Ernst & Whinney deny responsibility and say they will contest vigorously any legal action.

The Government administrator of PMA also plans legal action against that company's former auditors, raising the question of whether conventional auditing techniques are adequate for insurance companies, which must make estimates of costs of claims running years ahead.

Certainly the Irish Government is pondering the problems of responsibility without power, particularly the power to find out what is going on inside major financial institutions. New legislation is possible to allow the Government to carry out its own independent checks on the affairs of banks and insurance companies, although it is pointed out that the ICI London office actually came under the jurisdiction of Britain's regulatory authorities.

Insurers argue—although it is not strictly relevant to the ICI fall—that Ireland also needs to reform its system of jury awards. They say the long delays and high legal costs of this system threaten the industry's profitability.

The most profound impact of the rescue may fall on the relationship between the Irish banks and the Government. The two largest, AIB and Bank of Ireland, are Irish-owned; Ulster Bank and the Northern Bank are subsidiaries of NatWest and Midland Bank respectively. All have paid out £200m in levies to the hard-pressed Exchequer in the past four years and have had to provide twice as much against possible bad debts.

The Bank of Ireland has already warned that it is re-examining the risks of lending to small business: AIB, although it promises unchanged profits for this year, has been dealt a blow to its self-confidence from which it will not easily recover. It seems unlikely, in all the circumstances, that the Government can continue to expect the banks to pay the levies and provide the leading role in financing industrial development. Bankers will be wondering if the fashionable expansion into wider financial services is not, perhaps, a little too risky.

That may be little consolation for the taxpayers and policyholders: all Irish insurance policies already carry a 2 per cent levy to pay for the PMA rescue and further burdens seem inevitable. The Government's determination to stick to its borrowing targets, albeit modified, means that some spending cuts or tax increases may be necessary to help meet the ICI losses.

The bulk of those losses were incurred in the London reinsurance market. Mr Gerry Scanlan, AIB's chief executive, said this weekend that the quality of underwriting in the London office was low and premiums were inadequate.

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The London Stock Market will have the first opportunity today to make a judgment on the rescue of Insurance Corporation of Ireland (ICI) by the Irish Government and the resulting write-off by its parent, Allied Irish Bank, of £230m (£276.6m). The Dublin Exchange closed today for the St Patrick's Day holiday. Senior executives of AIB were yesterday working out details of the transfer of responsibility for ICI to the Government.

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WORLD TRADE NEWS

President Alfonsín hopes to see renewed investment in his country, Jimmy Burns writes

Argentina aims to boost trade with U.S.

PRESIDENT Raul Alfonsín of Argentina begins a six-day official visit to Washington today aimed principally at improving trade and political relations between his country and what, during the Falklands war, became for many Argentines the "enemy."

Government officials have gone out of their way to stress the importance of the visit, as it comes at a time when Argentina's nascent democracy is still desperately in need of trust.

It is the first official visit to the U.S. by an Argentine leader since the 1960s visit of President Arturo Frondizi.

President Alfonsín will not shy away from such thorny issues as Central America, the Falklands, foreign debt and nuclear policy.

It is hoped to see a renaissance in U.S. interest in investing in the resource-rich but economically troubled South American nation.

The confirmation last week that ITT's Argentine subsidiary Standard Electric was planning to withdraw from the domestic market has come as a sharp reminder of the enormous difficulties facing potential U.S. investors trying to maintain a minimum level of profitability in Argentina's economic climate.

With a turnover of some \$66m (\$80m) and a workforce of 1,400, Standard Electric Argentina had partly fallen foul of the more advanced tech-

nology offered locally by Siemens of Germany and NEC of Japan. But it had also suffered from price controls and a persistently high inflation rate.

To many observers, the news that Standard Electric could be pulling out is an ominous echo of the earlier withdrawal of General Motors from the Argentine car market.

Investment code

The demise of the local subsidiary of the U.S. motor company in 1979 suggested that, for all the public relations exercised by the then military regime, the investment climate was not as bright as it seemed.

Theoretically Argentina has a generously liberal foreign investment code which has been essentially untouched for years. There is no discrimination against foreign capital except at times of foreign exchange shortages, like the present, when companies are advised to repatriate profits in bonds.

In practice, however, U.S. company officials complain that the new democratic government has not adequately defined the rules of the game.

"The political climate here is still heated, and we continue to get confusing messages," commented Sr Federico Dodds, the president of the American Chamber of Commerce in Argentina.

ARGENTINE/U.S. TRADE STATISTICS (\$m)

Exports to U.S.	% of total
1980	496
1981	843
1982	1,007
1983	753
1984	990
Imports from U.S.	% of total
1980	2,343
1981	2,072
1982	1,160
1983	972
1984	1,441

Source: U.S. Chamber of Commerce in Argentina

The Chamber's member-companies account for some \$3.5bn investment stock or 40 per cent of total foreign investment.

Sr Dodds is particularly worried by reports that new legislation governing transfer of technology, export policy, and industrial promotion is being prepared by what, on balance, remains a highly nationalistic and anti-U.S. local parliament.

"We need firm assurances that the new laws will not be discriminatory," Sr Dodds said.

While such caution may explain the absence of any substantial fresh U.S. investment since President Alfonsín took power, the outlook for bilateral trade does not look much brighter.

The two countries have had a varied trade relationship in

recent years. U.S. shipments on a value basis have slipped steadily from \$2.3bn in 1980 to \$1.04bn last year. Argentine exports have been more turbulent, standing at \$666m in 1980, rising to \$1bn in 1987, falling sharply in 1983 then recovering to \$900.2m last year.

Despite the formation last year of a binational joint trade commission, Argentines share the common Latin American complaint that U.S. protectionism is setting back their export opportunities.

U.S. business sectors claim that U.S.-Argentine trade continues to be distorted in Argentina's favour because of high local tariffs.

Import curbs

Nevertheless, an increasing number of Argentine-based U.S. companies have managed to get round local import restrictions by dealing directly with other Latin American affiliates, and trading with the preferential quotas provided under the auspices of the Association for Latin American Integration.

Argentine steel, textile, and leather have been among the leading Argentine exports affected by U.S. quotas in recent months. But agriculture remains one of the most sensitive areas governing the trade relationship and is a high priority for discussion during Sr Alfonsín's visit.

The Argentines are anxious to avoid a price war with the

U.S. over grain products and want to reach some as yet unspecified "comprehensive" compromise arrangement on subsidies.

But U.S. farmers earlier this year were presented with an unusual situation when Cargill, a leading shipper of American grain, purchased Argentine wheat for import to U.S. flour mills.

The move according to some observers was likely to stimulate action by the Reagan Administration aimed at making U.S. grain export more competitive on the world market, to the detriment of Buenos Aires.

Meat exports are another area where the Argentines are seeking greater "understanding" from the U.S. As a result of continued protectionism by the EEC and the loss this year of the right to market to a more competitive Brazil, Argentina is once again looking for greater access to the American market.

But so far, there seems to be little likelihood of Argentine meat exporters getting round the tough U.S. health standards with anything but boiled meat.

SHIPPING REPORT

Gulf tanker business stays slack

By Andrew Fisher, Shipping Correspondent

WITH MORE attacks on tankers as a result of continuing hostilities in the Iran-Iraq war, it has been set for an increase. But business has continued slack in the Gulf.

Few big ships obtained business from the region last week. There has been plenty of inquiry, but there are still too many ships in the area for the amount of available business, despite the risks of operating in or near a war zone.

"The ever-present problem of excess tonnage availability still inhibits any further rates," E. A. Gibson Shipbrokers of London said. Over the past month, there has been a rise of nearly 2.5m tons in the size of the laid-up fleet.

For those VLCCs (very large crude carriers) which did find work in the Gulf, rates were hardly exciting. For a 240,000-ton cargo to the East, Worldscale 24 was obtained. To the West, it was around Worldscale 25.

The UK Government's decision to abolish the British National Oil Corporation (BNOC) had little effect on the tanker market, which was divided about the likely impact on oil prices.

On the dry cargo scene, Denholm Coates reported that rates had shown some improvement on the Atlantic for Panamax-size ships (those able to go through the Panama Canal).

The grain rate from the U.S. Gulf to Continental Europe remained at around \$9.50 a ton, but the rates to Japan was firmer at \$15.75.

This improvement for large ships reflects a lack of such vessels available for the Atlantic as a result of unabated Soviet chartering as part of the Russian grain import programme. In the Pacific area, Panamax levels were tending to drop.

AN APPEAL

A Lionel Robbins Memorial Fund has been launched to endow an annual lecture series and to provide research scholarships for young post-graduates in economics, the arts or higher education. £80,000 has been raised so far. Contributions can be sent to (and covenant forms are available from)

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London School of Economics
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Japan bid to influence EEC over Gatt talks

By Paul Cheeswright in Brussels

THE JAPANESE Government has appealed to the EEC to throw its weight behind a new round of trade liberalisation talks at the General Agreement on Tariffs and Trade.

A letter from Mr Shintaro Abe, Japan's Foreign Minister, has been delivered by the Japanese Ambassador to Mr Willy de Clercq, the EEC commissioner in charge of external relations.

It is clearly designed to influence the attitude of Community Trade Ministers who meet tomorrow to define their attitude to a new Gatt round which is being pushed strongly by Japan and the U.S.

Mr Abe's appeal was couched in general terms, stressing the need for a political commitment to a new round to reinforce the liberal trading system and emphasising the Community's influence over the attitude of other countries.

There is a disposition in Brussels to see Japan as a stalking horse for the U.S., which is especially keen to see Gatt disciplines brought to bear on services trade and high-technology commerce.

The EEC has already stalled a Japanese move to have a high-level meeting of preparation for a new round next July, with a view to starting negotiations early next year, which would suit the Reagan Administration.

Generally, the EEC is approaching the whole matter cautiously, not least because of divisions in its own ranks. The Commission has already urged on trade Ministers early on that negotiations to be met by the international trading community before a negotiating round takes place.

These include agreement on an agenda which covers not only the sort of topics which interest the U.S., but also older issues such as import safeguards. On this point, Japan is agreed. Both sides accept the need for careful preparation.

But Mr de Clercq last week indicated that Japan should make certain its export policies are the same as its main trading partners - presumably meaning it should not target exports in specific sectors. This should be a condition for a new trade round.

This reflection of a more generally widespread irritation with Japan's surplus on its trade suggests that Mr Abe's appeal may have a limited effect on the trade Ministers.

Soviet Union 'not planning to join Intelsat'

WASHINGTON—The Soviet Union is not planning to join Intelsat at the present time, a spokesman for the International Satellite Consortium said.

A proposed memorandum of understanding that Intelsat and the Soviet Union are now discussing contains "no talk about membership," Sr Jose Luis Alegret, Intelsat's Deputy Director, stated.

"We do hope the agreement will eventually lead to Soviet membership but that decision is up to the Soviet Union," Sr Alegret said. The consortium's charter permits the Soviet Union to join at any time.

When news of a proposed agreement between Intelsat and the Soviet Union was leaked last week, it raised speculation that the Soviet Union was preparing to join.

Intelsat, with headquarters in Washington, is a non-profit co-operative of 109 countries that owns and operates the global satellite system used for international communications.

Yugoslavia belongs to Intelsat while nations of the Soviet Bloc operate Intelsat, a smaller satellite network.

AP

U.S. concern over French nuclear-plant talks with Israelis

By DAVID HOUSEGO AND DAVID MARSH IN PARIS

FRANCE is likely to run into U.S. opposition over a possible sale of a nuclear power station to Israel in a deal which could be worth \$5bn (\$2.7bn).

Mr Moshe Shabai, the Israeli Energy Minister, who visited Paris last week for talks on the purchase, is due to make a further trip to France in coming months amid signs that the Elysee Palace is placing considerable weight on steering negotiations through.

Israel has been considering the purchase of two 900 Mw pressurised water reactor generating plants, but still has not made a final choice over whether to opt for a nuclear or coal-fired station.

The prospective deal is causing concern in the U.S. both over the cost—which is thought to be far too high for the embattled Israeli economy—and over the possibility that Israel could use the facilities to improve its capacity to make nuclear weapons.

Some French officials fear the issue could also damage France's relations with the Arab world. This is especially so because of sensitive ties about a previous French sale to Israel in the 1960s of a nuclear reactor and reprocessing plant which were of crucial importance in building up Israel's bomb-making capabilities.

Fraternité, the French nuclear reactor company, is keen to secure an Israeli order because of the sharp slow-down in ordering of new French N-plants and the highly depressed international market.

Although Fraternité officials say any Israeli deal could take up to five years to conclude, the company earlier this month sent a sales team to Tel Aviv for "preliminary" discussions and to visit a proposed site.

Israeli diplomats said after Mr Shabai's visit last week during which he saw M Laurent Fabius, the French Prime Minister, that some advance had been made over the N-plant order. An Israeli diplomat said Israel was seeking credit terms "as generous as possible."

The U.S. is warily watching the Franco-Israeli negotiations. Agreement on a sale would counter U.S. efforts to ban sales by Western suppliers of nuclear equipment to countries which do not allow full international inspection of their nuclear industries to assure non-military use.

Israel, which has not agreed to the non-proliferation treaty, has never carried out a nuclear explosion or produced "openly" weapons-making ability.

The U.S., however, believes that the country probably since the 1970s has had the capacity to build a small nuclear arsenal, using plutonium produced from the previous French-supplied reactor at Dimona, which has been operating since 1963.

The idea of supplying a nuclear plant to Israel was first discussed when President Francois Mitterrand paid a state visit to Israel in 1982.

Negotiations were pursued when M Shimon Peres, the Israeli Prime Minister, visited Paris at the end of last year. Ironically, M Peres, as director-general of the Defense Ministry, played a key role in securing French agreement on the Dimona reactor.

UK ECONOMIC INDICATORS

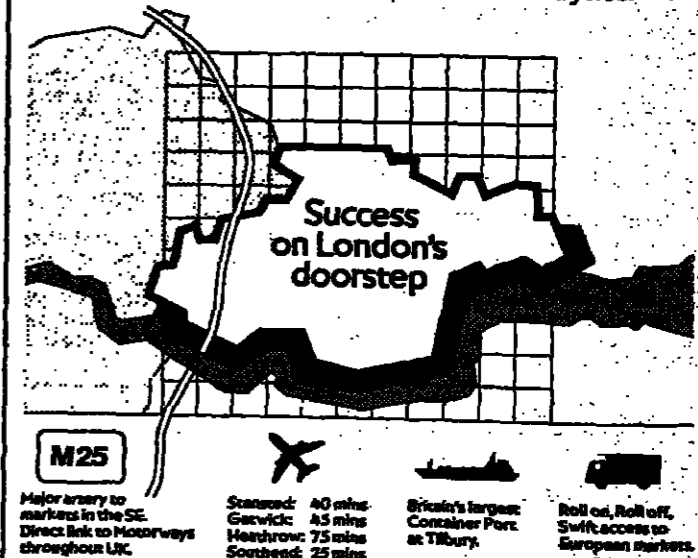
INDUSTRIAL PRODUCTION (1980 = 100)

	Jan '85	Dec '84	Nov '84	Jan '84	% change over previous year
U.S.	144.4	145.9	145.4	135.5	+ 5.1
France	100.2	100.4	100.4	97.7	+ 4.5
W. Germany	100.9	101.7	102.9	100.2	+ 3.7
Italy	97.4	95.0	96.4	92.7	+ 4.2
Netherlands	100.4	101.7	101.7	98.4	+ 2.9
UK	103.4	103.3	102.9	104.7	- 1.2
Japan	126.7	126.2	116.7	109.0	+16.7
Belgium	102.9	103.0	102.2	102.3	+ 0.1

Source (except U.S.): Eurostat

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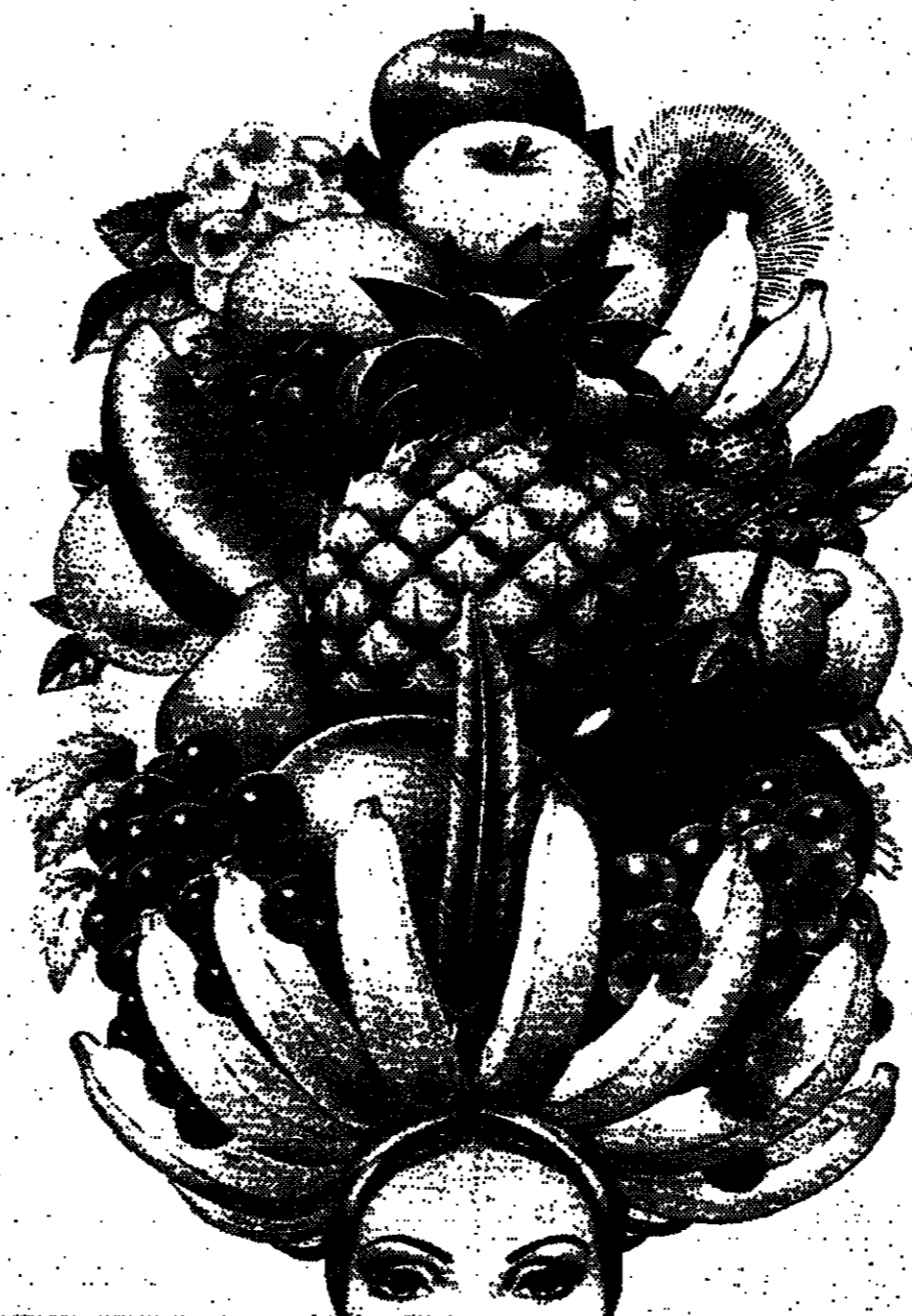
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UK NEWS

Tough budget will limit scope for tax cuts

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

A TOUGH budget emphasising the need to control inflation and hit financial targets will be unveiled by Mr Nigel Lawson, the Chancellor of the Exchequer, tomorrow.

His plans will be based on a comparatively small overall tax cut and will make no concession at all to those who have urged a "budget for jobs" at the expense of inflation targets.

Instead, Mr Lawson is likely to emphasise the need for moderate wage settlements to make room for higher employment, while announcing a series of measures to increase incentives and expand job-creating schemes.

His overall scope for tax cutting is likely to be put at less than the \$1.5bn foreshadowed in his November autumn statement, even though Treasury estimates have suggested that he could have room for an overall adjustment of about £2bn.

However, one of Mr Lawson's priorities will be to convince the financial markets that he will be able to hit his borrowing target next year, even if there are unforeseen contingencies. This target will be set at close to £7bn. As Mr Lawson will point out, this represents a considerable tightening compared with the expected £9.5bn to £10bn this year (1984-85).

Although his general view of the

economy will be optimistic, Mr Lawson is likely to say that his scope for tax cuts this year has been limited by:

● The continuing cost of the miners' strike, which may add up to £500m to public borrowing in 1985-86;

● Uncertainties about oil prices and the dollar; a sharp fall of the dollar could greatly reduce government revenues from the North Sea;

● Increasing government debt interest, partly as a result of the rise in UK interest rates at the turn of the year, and the extra borrowing to cover the costs of the miners' strike;

● Acceleration of the inflation rate this spring which will mean that pensions and other benefits will rise by more than the Treasury was expecting before Christmas. The May inflation rate could reach 5% per cent compared with the Treasury's November forecast of 4% per cent. This reflects the slide in sterling and the rise in interest rates in January.

It is likely that the Chancellor will increase his scope for reducing the burden of income and possibly of capital taxes, by some extension of the coverage of VAT and possibly a small levy on pension funds. The impact of these revenue-raising ideas is likely to be relatively small,

however. They may have been ruled out altogether in response to political pressures. A major shift from direct to indirect taxation can be ruled out, partly because of Mr Lawson's anxiety about future inflation.

However, the Chancellor will probably sketch out his ambitions for tax cuts and tax reform in future years. These could be substantial if public spending and borrowing - and inflation - can be controlled.

This year, the main emphasis is likely to be on raising income tax allowances and thresholds by more than the rate of inflation. They will probably go up by 10 per cent with perhaps a similar rise in the child benefit.

Drink and tobacco duties are likely to go up by last year's inflation rate of 4% per cent with tobacco duties rising perhaps a little more.

Mr Lawson is certain to be cautious about raising any taxes which could feed through into this year's inflation rate. His forecast is likely to show inflation at 5 per cent by the end of the year, compared with his 4% per cent forecast made in November. His estimate of economic growth is likely to be put at 3% per cent for this year, of which 1 percentage point represents recovery from the miners' strike.

A central bank of information will be established to provide the

unions with international reports on Ford activities.

Delegates also agreed to form a "provisional workers' sub-committee on Europe", which will meet regularly during the next year and report to the next world workers' conference, which organisers hope to see held in 1986.

Mr Passingham, secretary of the Ford UK conveners' committee, said shop-floor support for inter-country embargoes had been demonstrated when IG Metall, the West German union, had been in dispute over working hours. Ford had tried to import substitute parts from South Africa into the UK and the workers had refused to use them.

"Obviously that will happen increasingly if they try to do it again," Mr Passingham said. "I am not saying it will happen overnight, but we have laid the foundations."

The unions did not accept that there was overcapacity, especially since Nissan could see a potential for 200,000 extra cars by building in Britain.

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Ford workers agree worldwide support for local disputes

BY IAN HAMILTON FAZEY

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Up to 40,000 jobs may go in reorganisation of coalfields

BY JOHN LLOYD, INDUSTRIAL EDITOR

THE NATIONAL Coal Board (NCB) has told its area directors to cut back hard on manpower in the next financial year. Some directors believe that, as a result, as many as 40,000 jobs could be lost in the next 12 months.

At the same time plans to move many of the NCB's functions and staff from London to a new national centre in Nottinghamshire are expected to be approved by a board meeting later this week, with the appointment of new directors to the most senior posts directly below the board.

The board also expects to begin talks with all three mining unions reasonably soon, as the overtime ban - the maintenance of which prohibits normal working - continues to crumble.

The area directors were told last week to conduct an "exercise" in making as many mineworkers redundant as they could, while maintaining production targets. Initially this would merely be a paper exercise, but some directors have been told that the aims are real.

Area totals will vary widely and have still to be produced. Some directors believe, however, that the cumulative lists of closures completed or planned in the next year could amount to more job losses, perhaps twice as many as the 20,000 mooted in the plans announced on

March 8 last year to cut 4m tonnes of capacity. Those plans helped to trigger the year-long strike.

These cuts, once implemented, would be effected if possible by means of voluntary redundancies. They would involve substantial reorganisation and redeployment of mineworkers in those areas where numbers of mines will close. Miners who wish to stay in the industry - and well over 20,000 of the 180,000 miners indicated during the strike they wished to leave - would be required to move to new pits with a secure future.

At least 20 pits nationwide are on area directors' immediate lists for

Secret fuel supply for steel

British Steel Corporation survived the year-long miners' strike partly with the help of secret coal shipments from Australia. These shipments, which passed through the Netherlands and Belgium in order to disguise their origin, were made in spite of the policy of Australian transport workers to prevent coking coal deliveries being dispatched to the UK, according to the FT International Coal Report. Much of the coal entered the UK as Dutch coal - although no mines operate in the Netherlands and Belgium rose substantially last year with the Dutch taking 2.2m tonnes compared with 664,247 tonnes in 1983. The only blast furnace operator in the Netherlands, Dutch steel producer Hoogovens, claims that it purchased no more than 225,000 tonnes.

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closure. The fate of the three heavily loss-making pits which make up the Kent coalfield is uncertain, but they are unlikely to survive unscathed.

There is, however, confusion about the mechanism for closing pits where the union disputes closure. The agreement reached between the NCB and the pit deputies' union, Nacods, last October, lays down that all pits must go to a revised procedure modified to include an independent element - but the National Union of Mineworkers is not party to this agreement and cannot under the board's edict, enter into talks until the overtime ban is taken off.

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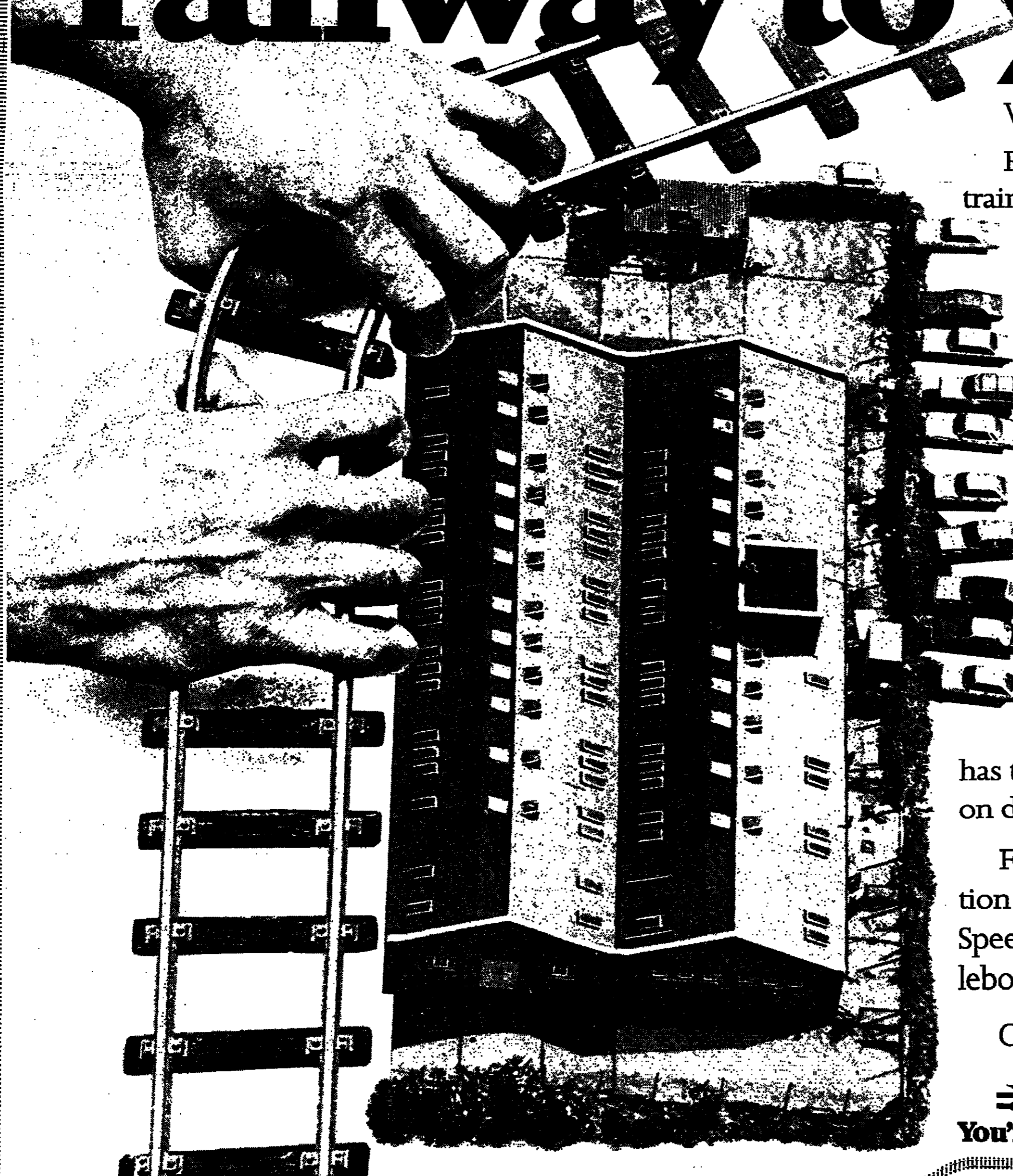
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UK NEWS

State shipyard poised to win £45m contract

BY ANDREW FISHER, SHIPPING CORRESPONDENT

BRITISH SHIPBUILDERS is on the verge of winning one of its biggest merchant ship orders: a £45m heavy-lift crane vessel to be built by the successful Sunderland Shipbuilders subsidiary for a UK owner.

The order, to be placed by International Transport Management (ITM) of Middlesbrough, might be announced this week. It would be bigger than the £40m contract recently won by Govan on the Clyde to build a big North Sea ferry.

The Sunderland yard, currently building two sophisticated offshore support vessels for Stena Line of Sweden worth just over £30m each, hopes also to convert an option for a third such ship into a firm order.

The expected contract from the privately owned ITM, which caused a furore two years ago when it ordered a £10m cable-laying ship from South Korea, would bring state-owned BS's merchant order tally so far in 1985 to nearly £170m.

Also expected soon is news of the successful bidder for BS's Yarrow warship yard on the Clyde. Both contenders in the £30m bid contest, General Electric Company (GEC) and Trafalgar House, said at the weekend that they hoped to hear soon from the Government. No decision has yet been taken, the Department of Trade and Industry said.

The ITM order is one of several that BS has been negotiating for some months. The Govan yard also hopes to win an order from Turkey for three bulk carriers worth up to £30m in total.

Mr Alfred Duffield, chairman and managing director of ITM, said: "The order is being done in recognition of the fact that British yards can only survive if they build specialist equipment rather than scrambling for standard ships."

That is the policy that Mr Graham Day, BS chairman since au-

turn 1983, has been pursuing in the face of the prolonged crisis in world shipbuilding. He is seeking to bring down the group's heavy losses.

The new ITM crane-ship will have special computerised dynamic positioning equipment to make it as versatile as possible for offshore use in deep and shallow waters, Mr Duffield said.

ITM, set up in 1976 and half-owned by Mr Duffield, an accountant who previously worked on Vickers's engineering side at Barrow-in-Furness, operates offshore vessels, rigs, crane and cable ships, and has a £30m turnover.

The latest surge of merchant orders at BS should help the group to reach its goal of breakeven in a few years' time after trading losses of a record £161m in the financial year to March 31, 1984, and an expected £50m in the year about to end.

A glimpse of daylight, Page 15

Employers concerned about pay levels

By Michael Cassell

NO PAY explosion has occurred in UK industry during the present bargaining round but pay rates are still rising faster than in most other industrialised nations, according to the Confederation of British Industry, the employers' organisation.

The CBI in its latest employment affairs report expresses continuing concern about the level of earnings and points out that, at the same time, the UK's rate of growth in productivity has slowed sharply, to lag behind other competing countries.

The CBI says that unfavourable trends in the UK's international cost competitiveness have been dwarfed by the exceptional weakness of sterling against the U.S. dollar but emphasises that its performance is still at historically poor levels when compared with almost every other leading industrial nation. The underlying trend, it says, remains "extremely worrying".

The confederation adds: "In any event, relying on a depreciating currency provides no satisfactory or longer-term answer to a failure to match, and then improve on, the cost performance of other countries."

Information collected by the CBI shows that most pay settlements reached in December ranged from 4.5 per cent to 7.5 per cent in manufacturing and private services. An inability to increase prices, also low profits, remain the strongest downward pressures in manufacturing-sector pay negotiations, with the cost of living the most widely quoted upward pressure.

The CBI reports that concessions on working time remain at historically low levels, with more than nine in ten manufacturing settlements showing no change in the length of the basic working week.

According to the CBI, the increase in earnings in manufacturing industry averaged 8.5 per cent in 1984, compared with 6.5 per cent in the U.S. and 3.5 per cent in West Germany. While UK productivity growth in 1984 was less than half the previous year's level - at 2.5 per cent - the figure reached 10 per cent in Japan, 7.5 per cent in France, 6 per cent in West Germany and 3.5 per cent in the U.S.

One in 10 of workforce self-employed

By David Brindle

A GREATER proportion of the workforce is self-employed than at any time since 1921, according to the Manpower Services Commission (MSC).

Last year's total of 2,485,000 self-employed people was up 32 per cent since 1979 and represented one in 10 of the workforce, the MSC says in its latest Labour Market Quarterly Report, published today.

The report suggests that the number of self-employed women has risen dramatically. Although it was only 448,000 in 1981, within two years it had increased 24 per cent compared with a rise of 2 per cent in the number of self-employed men.

The report also points to rising trends in long-term unemployment. During 1984, it says, the number of those registered unemployed for more than 12 months rose by 11 per cent and the number of jobless for more than three years rose by 38 per cent to 428,000 - 13 per cent of the total.

MSC Labour Market Quarterly Report, MSC, Moorfoot, Sheffield, S1 4 PQ.

Skilful marketing 'key to cable TV future'

BY RAYMOND SNOODY

HIGH QUALITY management and skilful marketing will ensure the success of cable television in the UK, a new report by City University Business School consultants argues.

The consultants concede that cable faces problems in the short term, but are "relatively optimistic" about future prospects.

"The cable industry has a unique opportunity to exploit the growth and convergence of the home entertainment, communications and information markets. If managed skilfully, cable should play an integral role in the British way of life into the next century," the report, Marketing Cable Television in the UK, says.

Market research for the report shows that core market for cable is the large and growing minority of British consumers who have already shown an interest in both video and home computers.

The research carried out in Croydon south of London - one of the 11 areas chosen as pilot franchises in November 1983 - indicates that interest in cable is low in the over-50

age group. It concludes that best prospects are households which are already high users of television with a head under 34, or middle-aged parents with teenage children.

The consultants say that because cable will have limited appeal to some demographic groups "it will remain difficult to achieve average take-up rates beyond the 25-30 per cent level required to break even in a typical franchise area."

The City team believes that the outcome is not predetermined and the marketing and management skills of the operators will be the key to cable's future. Mr Brian Sturges, leader of the team, says: "This year is likely to be the year of opportunity for cable. The key to success lies in a sophisticated marketing campaign designed to establish strong identity for the different local franchises."

In a companion report, Financing Cable Television, the consultants say that there are banks willing to finance properly structured and well-thought-out cable proposals.

Marketing Cable TV, £485; Financing Cable TV, £485 from STW Publications, 3 St Giles Avenue, off Newmarket Road, Letchworth, Herts. SG8 1LH.

Pre-budget equity boom for property developers

BY WILLIAM DAWKINS

INVESTORS appear to be rushing to take advantage before tomorrow's budget of the current wave of property companies offering equity under the Business Expansion Scheme's (BES) tax incentives.

Eight such ventures reported last week that they had beaten their minimum subscription level. Mr John Dowdell of Chancery Securities, which by Friday had raised just over £500,000 for Grosvenor Terrace Developments, as against a minimum subscription of £400,000, said: "Applications are coming in faster than we can record them."

One property venture, Lockton Developments, had to issue an extra £2.5m worth of shares to meet investors' demand. Originally, Lockton was seeking to raise a maximum of £7.5m.

Mr William Wallis of Guinness Mahon, the merchant bank sponsoring Lockton's offer for subscription, said: "The tax relief has obviously been a factor. People have tended to like investing in something they can see rather than going into a pooled fund."

Fears that the Chancellor might exclude property developers from the BES tomorrow are also believed to have contributed to the rush of property ventures raising BES equity.

Pelmerston Property Developments, which by the end of last week had raised £2m as against a £500,000 minimum subscription, is offering a best-of-the-budget service for last-minute investors. Prospects will be available throughout the country today at the offices of Savills, the surveyors, and chartered accountant Neville Russell. Couriers will take application forms to London, where they will be processed by the licensed dealers sponsoring the issue, Lancashire & Yorkshire Investment Management, before the Chancellor speaks.

The other property-related BES companies to have reported that they beat their minimum targets last week include Great Gable, Smithfield Developments, Historic City Developments, St Giles Construction and Lincolnt Retirement Homes.

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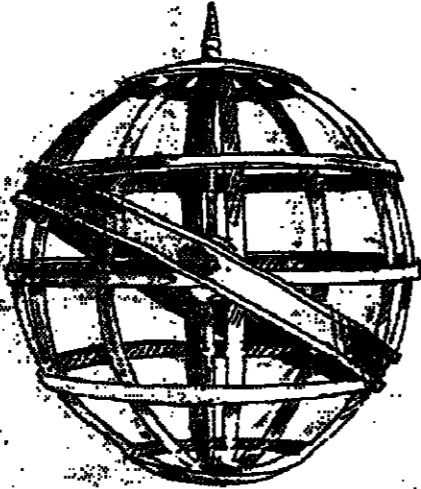
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Due 1989

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Pursuant to the indenture dated as of February 1, 1969, among Walter Kidde Overseas Finance N.V., Walter Kidde & Company, Inc. (now Kidde, Inc. ("Kidde")) and Chemical Bank as trustee, Walter Kidde Overseas Finance N.V. hereby calls for redemption on April 4, 1985, all of its outstanding 5% Convertible Subordinated Guaranteed Debentures Due 1989 (the "Debentures"). The redemption price is \$1,016.25 per Debenture, which includes a 4% redemption premium and accumulated interest of \$8.75 per Debenture to the redemption date.

Debentures are convertible into Common Shares, par value \$1.25 per share (the "Common Shares") of Kidde until the close of business on April 4, 1985, at the rate of \$31.57 for each Common Share.

On February 25, 1985, the reported closing sale price per Common Share on the New York Stock Exchange Composite Tape was \$35.00. Between January 1, 1984 and February 25, 1985, such sale price per Common Share ranged from \$26.25 to \$36.75. As long as the market price of the Common Shares exceeds \$32.08 per share, Debenture holders, upon conversion, will receive Common Shares of Kidde and cash in lieu of fractional shares with a greater market value than the cash which they would receive upon redemption of their Debentures.

Payment of the redemption price will be made by Chemical Bank, New York, as paying agent, or by the other paying agents named in the Debentures, upon presentation and surrender of the Debentures to be redeemed with all coupons maturing after April 4, 1985. No interest shall accrue on the Debentures on and after such redemption date.

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Chemical Bank House
180 Strand
London WC2R 1ET-England

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30 Gresham Street
London EC2P 2EB, England

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Montagne du Parc 3-B-1000
Brussels, Belgium

Commerzbank AG
32-36 Neue Mainzer Street
6000 Frankfurt, Germany

Banca Commerciale Italiana
Direzione Centrale
Titoli Estero Dept.
Piazza della Scala, 6
20121 Milano, Italy

Banque Nationale de Paris
16 Boulevard des Capucines
Paris 75009, France

Amsterdam-Rotterdam Bank NV
Herengracht 555
P.O. Box 1220
Amsterdam, Netherlands

Banque Generale de Luxembourg, SA
27, avenue Montigny & 14, rue Aldringen
P.O. Box 1906, Luxembourg

Questions concerning this notice should be directed to:

Kidde, Inc.
Attention: Secretary
Box 5555
Saddle Brook, New Jersey 07662, USA
Tel: (201) 368-9000-Telex 134-251
Walter Kidde Overseas Finance N.V.

Date: March 4, 1985

Holders of the Debentures presenting Debentures for redemption to the New York paying agent will be required to comply with the interest and Dividend Tax Compliance Act of 1983 on or before the date of such presentation.

UK NEWS

SCRAMBLE TO COMPLETE EQUIPMENT DEALS WORTH HUNDREDS OF MILLIONS OF POUNDS

Rush to beat capital allowances squeeze

BY ANDREW TAYLOR

BRITISH COMPANIES have been rushing to complete hundreds of millions of pounds worth of capital investment in plant and equipment in order to qualify for tax allowances which are due to be cut by a third from April 1.

The changes stem from the budget last year. First year capital allowances, due to be replaced by new arrangements next year will be cut from 75 per cent to 50 per cent at the end of this month.

To sweeten the pill, Mr Nigel Lawson, Chancellor of the Exchequer, said the burden of corporation tax would be cut correspondingly as first year allowances fell away. Next month, for example, corporation tax will be cut from 45 per cent to 40 per cent, falling to 35 per cent by April 1986.

The Chancellor claimed that the transition would have a "neutral effect on the financial position of companies" and that "when the changes have fully worked through, companies will enjoy very substantial reductions in the tax they pay."

The Confederation of British Industry (CBI) has strenuously challenged this assertion, however. It claims that the cash flows of many companies will worsen during the changeover. It also doubts whether there will be long-term benefits.

Mr Charles Burton, deputy director of economics at the CBI, says: "We accept that 100 per cent allowances gave an unfair tax advantage to capital intensive industries turning over plant and equipment on a regular basis. But we do not believe this is the right solution."

He argues that many companies will face higher tax charges for several years until allowances build up sufficiently to offset the loss of substantial first year tax benefits. Most disadvantaged will be companies which work their assets hard and have to replace them regularly.

According to the CBI a company renewing equipment after just two years would have offset only 43.75 per cent of the original cost of the investment against taxable profits.

It would take until the sixth year to write off 80 per cent of the cost.

If inflation is added into the calculation the real rate of depreciation is much longer, the CBI adds. With an inflation rate of 5 per cent a year it would take until the eighth year to write off 80 per cent of the real cost of replacement. At an inflation rate of 10 per cent it would take more than 15 years.

"Many companies will face an unenviable choice of either classing their investment plans or running into serious cash problems."

It proposes two main changes to the Chancellor's plans:

● Extend first time allowances for a further 12 months and delay implementing the new rules until April 1987;

● Modify the rules so that assets can be depreciated for tax in four years on a straight line basis of 25 per cent per annum instead of spreading allowances over many years on a reducing balance.

Companies which have been engaged in a scramble to complete investment transactions before the April deadline include British Caledonian Airways, the largest UK independent operator. It has been trying to finalise leasing agreements for two wide-bodied jets worth \$100m, while Vauxhall Motors has been pressing to complete financing arrangements for two new paint shops worth about £100m.

Mr Parry Mitchell, chairman of United Leasing, one of Britain's biggest computer leasing companies, says: "We have been frantically busy and expect to be so right up until midnight on March 31. Interest rates on leasing contracts are at present around 4 per cent and are very competitive. These can be expected to rise to between 8 and 9 per cent after the reduction in capital allowances."

This bunching of expenditure, judging by the experience of leasing companies, suggests that manufacturers of plant and equipment

should be enjoying a small sales boom. The effect, however, has not been uniform. Some manufacturers also emphasise that increased sales reflect purchases that have been brought forward rather than new business.

Bridgeport Textron, Britain's biggest machine tool manufacturer, making milling machines and machine centres, has reported record sales for February which it partly attributes to the reduction in capital allowances.

Sales of heavy trucks also increased by 21 per cent last month compared with February 1984. Commercial vehicle producers say that the effect of higher capital allowances helped increase demand last month.

Massey Ferguson, one of Britain's largest agricultural equipment suppliers, says that tractor sales after a modest start to the year have risen dramatically in the last three weeks as farmers have realised how little time is left before allowances are cut.

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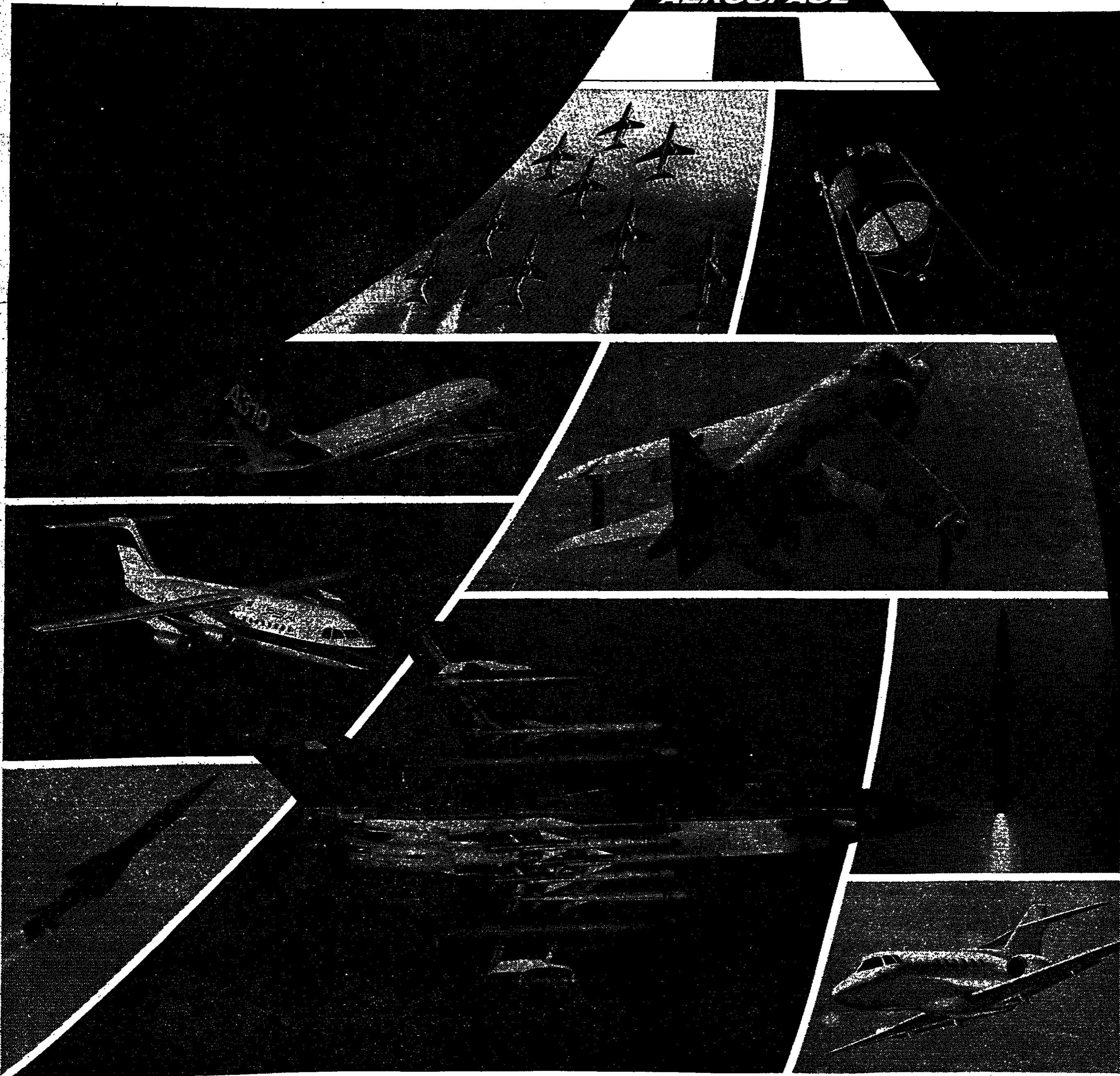
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THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Caterpillar Tractor

Battered but unbowed

Stewart Fleming on the U.S. group's efforts to adjust to a radically changed climate

JUST FOUR years ago Caterpillar Tractor was attracting such plaudits as "the indisputable world champion of the earth-moving equipment industry." But having since piled up almost \$1bn of losses in three years it is today one of the walking wounded of America's corporate sector.

It is also a company whose fate is hotly debated, not only on Wall Street but also on Capitol Hill. For in the eyes of some observers, Caterpillar has become a symbol of what is alleged to be the progressive erosion of this sector of American manufacturing. It is a sector finding it harder and harder to compete in the face of a super strong dollar which is undermining price competitiveness in domestic and international markets.

But Caterpillar has been battered by more than just a strong dollar and U.S. trade laws which it now maintains are not protecting it from unfair competition. To a degree, the company shot itself in the foot in the 1970s. Then, it vigorously expanded its U.S. capacity when world market for earth-moving equipment boomed. It was called into a false sense of security concerning its own labour and production costs by both the strength of demand for its products and a weak rather than strong dollar.

Wall Street would today be more confident of Caterpillar regaining earlier levels of profitability were it not for the emergence on the scene of a rival, Japan's Komatsu. This, Caterpillar's officials concede, adds another dimension to the challenge. "We are facing a new competitive threat of greater magnitude than we have ever faced before... no other competitor in our business has ever achieved that breadth of product line and level of efficiency and quality," says the recently retired Caterpillar chairman, Lee Morgan.

His conclusion was underlined starkly recently by Komatsu's announced decision to take the battle into Caterpillar's back yard by opening its own production facilities in Tennessee. Caterpillar's own belief that nothing short of a change of corporate culture is needed to secure its long-term future.

Caterpillar's corporate crisis erupted suddenly in 1982. Then,

a year after reporting record earnings of \$577m, its reputation as one of the best managed firms in American business was shattered by a \$180m loss. This brought to an abrupt end an unbroken earnings record stretching back 50 years.

Last month the Peoria, Illinois-based concern reported its third consecutive year of red ink. It projected another loss for the first quarter of 1985 and warned that, although it holds out hopes for a return to profitability this year, the outlook is still uncertain.

The 1984 loss was the largest so far—\$428m—even though sales revenues rose 21 per cent to \$6.5bn from the depressed 1983 level. Heavy price discounts in the industry and the fact that the company had still not reduced its break-even point to a low enough level

balance sheet and cash flow than might have been anticipated in a concern suffering such a flood of red ink over its profit and loss account.

But Caterpillar's response to its changed circumstances has encompassed more than mere retrenchment, vital as that has been. It has involved a reassessment of strategies and policies which have been previously unchallenged for years. Typical is the decision to diversify both some of its production and procurement to cheaper non-U.S. suppliers. This is a strategy being adopted by a growing number of U.S. companies which have decided that it is a mistake to wait hoping that a declining dollar will ease the burden of a high cost production base.

Caterpillar itself concedes that the strong dollar has not been its only problem.

Arguably the high cost structure it has been suffering from can be traced back to the 1970s. Helped by an undervalued dollar and the booming international market for earth-moving equipment (especially in developing countries) Caterpillar was able to expand its sales, profits and capacity rapidly without worrying too much about costs. The high reputation of its products alone ensured that they commanded a premium price in the market in those heady days.

Morgan concedes that during this period the company made "extravagant" labour settlements. But he claims that industry wide trade union bargaining structures were partly to blame. On the other hand, the company did invest in highly automated plant during this period, a decision which has meant that its predicament is not as bad today as it could have been.

Extravagant labour settlements came to an abrupt end at the beginning of this decade as the rising dollar, the rise of Komatsu and the collapse of the market hit Caterpillar. Morgan sees the dollar as giving its arch rival a 24-35 per cent unearned cost advantage. He says Caterpillar now plans on the basis not merely of current exchange rates but on what it estimates are future long term equilibrium exchange rates. "All of these things tell us that we have got to reduce our costs so we have been through a long programme of

cost reduction, quality improvement and people involvement. These are gut-wrenching hard things to do. It creates a bit of a cultural shock for the organisation," says Morgan.

That programme, aimed at reducing unit costs by 25 per cent was accelerated last year as the company realised that an early fall in the dollar was not necessarily going to help solve its problems. It is now due for completion this year, a year ahead of schedule.

Employee numbers have been cut from 89,000 in 1978 to just over 80,000 at the end of last year. A seven month strike which ended in April 1983 enabled the company to secure a more favourable labour contract but there is a suspicion on the shopfloor that management will be looking for more labour cost savings in the future.

Cutting wage costs is not the only characteristic of the company's labour relations strategy.

At the same time, though, Tony Green, head of the United Auto Workers (UAW) union at the company's headquarters says the company is trying to inch towards a less confrontational style of labour relations, albeit in his judgment, with mixed results. Morgan agrees that the search for more employee involvement and a more co-operative management labour relationship is under way.

Both men concede that this change in corporate culture is not easy to achieve. The local union seems to have problems convincing AUW headquarters in Detroit of the wisdom of the shift in direction. Morgan concedes that: "We have trained people here in a particular management style which was very effective for a time." He points out that it is not easy to persuade people to change and adopt a less autocratic approach to shopfloor relations.

"It's almost like getting rid of a bad habit and substituting a good habit," Morgan remarks, adding, however, that "it takes two to tango" and that the union has some attitudinal changes to embrace.

The company is changing the corporate culture in other ways too. Caterpillar once prided itself on its self-reliance. Today it is more willing than ever to look outside its own backyard for components and products.

"We are reducing costs by shopping. This would not be the best price and quality in parts and components," the company says, hinting that it that involves going outside high cost countries such as the U.S. for equipment so be it. It is also consolidating its casting foundries in Peoria and buying more castings from outside suppliers. The production line for track loaders and D6 tractors in Iowa is being closed down and production moved to Grenoble, France, and Glasgow, Scotland, in search of economies.

In an even bigger break with the past it is putting its name on equipment manufactured by outside suppliers. Lift trucks are now manufactured by Daewoo Heavy Industries in Korea and a Norwegian concern, Kaldnes Mek v Versted.

Realising that weakening demand for some of its heavy earth-moving equipment necessitated a speedy expansion of its line of lighter products, the company is in the process of introducing some 50 new or improved products. Partly to achieve this without heavy capital expenditure Caterpillar turned to the German company Franz Eder Maschinenfabrik for a new line of hydraulic excavators which will carry the Caterpillar brand. And to diversify its product line it is getting Caterpillar-branded road-

paving machines from CMI Corporation of Oklahoma, under an exclusive distributorship.

"Leveraging" the network of over 200 full-time Caterpillar dealers worldwide is how the company describes its steps to make the most of its dealers, an asset which it believes gives it a major competitive advantage.

The company has also started specialist divisions to enlarge the financing alternatives for its dealers and to make it easier to provide counter trade opportunities in Third World countries short of foreign exchange.

Diversification has also taken it into new lines of business. Last year it acquired 20 per cent of a manufacturer of welding robots—advanced robotics—and it has just announced the first investment by its new venture capital subsidiary, a \$2m, 12 per cent stake in Faired Robot Systems of Dallas.

The picture of Caterpillar which emerges is of a company struggling with adversity but resolutely and methodically charting a course out of it. Wall Street analysts who follow the industry say they are confident that Caterpillar will come through its time of troubles but they are still asking when and at what level profitability will be restored.



Demand for Caterpillar's heavy earthmoving equipment having weakened the company has embarked on a swift expansion of its line of lighter products; some 50 new or improved products are being introduced

Slow move towards a unified structure

BY DAVID MARTIN AND BRIAN GROOM

CARETAKERS and typists on the same grade with the same pay and conditions. Accounts clerks and line operators in a single grade getting the same basic salary. Skilled craftsmen with the same grade, conditions and annual salary as assistant buyers.

A growing number of British companies are adopting this kind of unified grading structure for all their workforce, company-wide or on a particular site. As a key to unlock greater commitment, motivation and flexibility, it is probably the most significant future development for payment systems.

Progress is painfully slow, as with so many shopfloor trends in the UK. Fewer than 2 or 3 per cent of companies have so far integrated their blue- and white-collar pay scales. But interest is growing.

It is becoming increasingly common in sweet and confectionery manufacture at companies like Cadbury, Mars, and Thorntons, the high-quality chocolate producer—and spreading in brewing, can-making and packaging. It has started in engineering with agreements at Cummins Engine and Hales.

A number of pressures encourage the trend:

● It forms part of the general move towards harmonising the terms and conditions of manual workers and white-collar staff, giving them the same hours, holidays, pension and sick pay schemes, canteens and car parks. Britain still lags behind overseas competitors in removing these institutional "them and us" barriers.

● It assists the blurring of traditional blue- and white-collar job boundaries which new technology is causing. On computerised production equipment, for instance, some companies are using technicians with paper qualifications as trouble-shooters to back up time-served manual craftsmen on maintenance and repair.

● Companies want to develop pay scales which encourage people to learn extra skills in return for pay increments, and which impose no artificial barriers to their career progression.

● Many managements yearn to rationalise their fragmented

bargaining units into a single structure for a company, division or factory, often with a single new anniversary date for pay negotiations.

● The new legislation that men and women must have equal pay for doing work of equal value points to the logic of a single pay and grading structure covering all employees.

Thorntons, a family-owned company based in Derbyshire, has had a unified structure at its Belper site since the 1960s. Grading for all the 500 employees is based solely on the quality of decision-making in each job and assessed against six defined bands.

Mars, the U.S.-owned chocolate manufacturer at Slough, Bucks, has an integrated pay structure as part of a comprehensive single-status policy. All staff receive the same benefits. The only difference in treatment is the variation of pay levels according to responsibility.

These are both non-union, but integrated systems have been introduced in a unionised environment at Cadbury's 15-year-old Chesham plant, North Wales, and Continental Can's greenfield site at nearby Wrexham.

They are spreading to older sites. After lengthy negotiations Cummins Engine last year reached agreements at its Darlington, Shotts and Daventry plants which integrated the pay structures and allowed workers to win extra annual pay rises by acquiring "skill modules."

White-collar unions can be wary of loss of privilege, but companies need not find their objections insurmountable. Manual unions generally endorse the changes as a means of improving terms and conditions.

Many companies evidently still do not see the need for change. Some believe a single scale for everyone would be too cumbersome. Others object to the cost of the improved pay and benefits which tend to accompany such deals. But if their competitors become more efficient by this means, failure to change may prove more expensive.

David Martin is a research officer with Industrial Relations Review and Report, a

Assets stand at over £8 billion.

EXTRACTS FROM THE REVIEW BY THE CHAIRMAN, MR R C SMITH, TO BE PRESENTED AT THE ANNUAL GENERAL MEETING ON 26th MARCH 1985

Chairman's Review

Five years ago our total assets were £2.75 billion, having increased a remarkable sixfold in real terms since the end of the Second World War. It is therefore very gratifying to report that over the last five years the assets have more than doubled in real terms to stand at over £8 billion.

Reasons for this continued expansion are not difficult to find. Not only have our investments performed well but also our hardworking sales force has been producing ever larger amounts of new business in all three countries in which we operate as illustrated below.

TOTAL NEW PREMIUMS FOR ORDINARY BUSINESS			
	UK (£m)	Republic of Ireland (£m)	Canada (\$m)
1982	65	39	50
1983	149	48	57
1984	192	118	90

Although there has been growth in both annual and single premiums in all three countries single premiums have increased the faster. Indeed in the UK, as well as in the Republic of Ireland, where we have just celebrated 150 years of business, our single premiums have trebled since 1982.

Changes in legislation, actual or anticipated, also have an effect. When the new arrangements for giving mortgage interest relief at source (MIRAS) were announced two years ago the switch to endowment assurances to cover existing mortgages caused a flood of business. This has since abated, both for new and existing mortgages, as the result of the withdrawal of life assurance premium relief in March 1984 but not before well-founded rumours concerning its abolition had caused a flurry of new business as people tried to beat the Budget. Since then fears

that pension provision would become subject to some form of taxation in this year's Budget have been a factor in the increase of personal pension business.

UK Legislation

When Government seeks expert advice in advance of change there is evidence that the advice is considered and followed. This was so in relation to life assurance commissions, and the plan to set voluntary maximum values of commission through the Registry of Life Assurance Commission (ROLAC) could receive indirect statutory backing. Standard Life wholeheartedly supports the ROLAC enterprise, the success of which should ensure the continuance and strengthening of the sale of life assurance through independent insurance intermediaries able to give impartial advice.

The future of pensions is in greater doubt. Last year Standard Life added its voice against the scheme for personal portable pensions in the form propounded by the Centre for Policy Studies, but wide criticism seems to have had little impact on the proposals in the consultative paper published by the Secretary of State for Social Services in July 1984. On a matter of this complexity public comment should be weighted with expert advice, not only on the objectives but also on the implementation of whatever scheme is proposed.

As this review has to be completed in the days immediately preceding the 1985 Budget, it can only be hoped that appeals to the Chancellor not to deal imprudently with the well-established taxation treatment of pension provision will have been heeded. A desire for immediate fiscal gain should not override such proper deliberation of the issues, including the consequences for all present and future pensioners, as can arise only from reasoned discussion with the pooled expertise of the pensions industry.

Investment

In respect of our UK life assurance and annuity funds less than a fifth of the year's cash flow was invested in fixed interest securities, the remainder being used to purchase equities (both in the UK and overseas), property and some index-linked securities.

The market value of our equity portfolio is now almost £2.5 billion.

Five years ago we launched a new range of investment-linked policies in the UK, and I am particularly pleased to be able to report that over the period the performance achieved by our managers as illustrated below has been outstanding.

Fund	Change in Unit Price from 30 Oct 79 to 30 Oct 84 %	Change in Appropriate Market Index %
Managed Equity	+146.7	+132.9
Fixed Interest	+91.3	+61.0
International Property	+149.8	+144.5
	+72.9	

Over the period the Retail Price Index increased by 51.8%.

Valuation and Bonus

The continuation of favourable investment conditions has allowed us to retain our exceptionally high rates of reversionary bonus and at the same time to declare substantially increased rates of terminal bonus both in the United Kingdom and the Republic of Ireland. Few companies will be able to match these impressive results this year and none can match our consistently good bonus results over the past 25 years.

The exceptional levels of bonus we have been able to declare in recent years have stemmed from the investment returns obtainable in times of high inflation. Their maintenance could not be expected if inflation were to remain at its present relatively low level with a correspondingly lower rate of investment return, but these conditions would, at the same time, bring stability to the real value of the proceeds of maturing policies.

Future

Many policyholders will have seen the announcement at the end of January of our purchase from Barclays Bank of just over a third of the issued capital of the Bank of Scotland for £155m. It has been clear to us for some time that a strategic stake in the banking industry would help us in tomorrow's markets

to maintain our pre-eminently successful record of service and profits to policyholders. We are particularly pleased to have acquired this stake in a bank which has built up such an impressive record of prudent financial management and forward-looking innovation.

Board

Mr G Drummond Birks, President and Chief Executive Officer of Henry Birks & Sons, Canada, joined the Board in June 1984.

Mr D Bruce Pattullo, Treasurer and General Manager of the Bank of Scotland, has accepted an invitation to join our Board.

Staff

This review has referred in part to the difficulties which have to be surmounted in achieving the impressive growth of business which the Company has once again recorded in 1984.

That success is not easily won and I gladly acknowledge on behalf of all our policyholders the contribution of our staff in every area of the Company's activity.



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Monday March 18 1985

A flawed embargo

NIKITA KHRUSHCHEV is said to have provided the reduction of economic sanctions when he chided the West for selling buttons to the Soviet Union that could be used to hold up Russian soldiers' trousers.

Mr Gorbachev would doubtless say the same about many of the items on the secret list of goods of potential strategic value recently re-drawn by the Co-ordinating Committee (Co-Com) comprising most Nato countries and Japan.

So long as the Soviet bloc is regarded as a threat, the sale of advanced technology designed for civilian use but adaptable to military purposes will have to be vetoed. The buttons-for-trousers argument will always be with us; but today it is becoming less of a joke because of the rate of technological development and the speed and ease with which know-how spreads.

Intensive exercise

The U.S. with Pentagon hard-liners enforcing ever-tighter control over export licensing, has mounted an intensive administrative exercise to stop the flow. It has put pressure on its allies in CoCom and on neutral governments like Austria and Finland, suspected of channelling embargoed goods to the East. In particular, it has asserted its right to apply U.S. export law to overseas subsidiaries of American companies and to any foreign company using U.S. technology.

There has been a corresponding upsurge of protest from businessmen, scientists and politicians in the U.S. as well as in Europe who see the controls as exaggerated, costly and counterproductive. The extra-territorial application of U.S. law is also much resented.

Some recognition of an imbalance between strategic and commercial considerations is implied in the U.S. Department of Commerce's proposal three days ago to relax some of the rules. Under the new proposals companies would be allowed to ship goods on the U.S. list of restricted exports; they could argue that the Soviet bloc can buy the same goods elsewhere.

U.S. manufacturers have watched with dismay as European and Japanese companies reap the benefits of successive American embargoes in protest at the Soviet Union's human rights record, the invasion of Afghanistan and the imposition of martial law in Poland. The USSR is now consciously directing a number of large turbine projects towards British, Italian and Japanese contractors.

The U.S. Commerce Department has been at pains to demonstrate that it is not soft on the strategic question; but if its proposal is adopted it will

Contentious requests

CoCom should not be disbanding, but its small secretariat in the American embassy in Paris cannot—and should not have to—pass judgment on any but the most contentious requests lodged by exporters with their governments. The U.S. is not alone in this. The U.S. at present delegates allied governments too little responsibility apparently because it does not trust them.

As part of the Western world's trading system, the U.S. has to accept that its professed aim of removing distortions to free trade in high-technology products inevitably implies the same valuable knowledge will end up in the wrong hands. There is bound to be a compromise between unimpeded commercial flows and a water-tight system of strategic controls. The present balance looks wrong.

Foreign bidders are welcome

MR NORMAN TEBBIT, Britain's Trade and Industry Secretary, was right not to refer to the Monopolies Commission the bid by the Egyptian Al-Fayed brothers for House of Fraser. The decision is in line with his intention, announced last year, to confine merger references as far as possible to cases which threaten to reduce competition. Questions about the suitability of a particular individual or company to acquire particular assets would be given less weight in the merger vetting process.

This is a welcome shift of emphasis, even though it involves rough justice for Lorrho. Its original bid for House of Fraser came at a time when the "suitability" issue was in vogue. The fact that the latest commission report, unlike the 1981 inquiry, could find no detriment to the public interest arising from its ownership of House of Fraser adds salt to Lorrho's wounds. But the serious point in the affair is not so much Lorrho's discomfiture as the weaknesses which it reveals in merger policy.

Weaknesses

There is too much ministerial discretion and the criteria under which the commission operates are too vague. These weaknesses will continue as long as ministers insist on retaining the power under the Fair Trading Act to refer mergers for reasons other than their impact on competition.

Some argue that these powers are needed to prevent undesirable foreign takeovers of important British companies. The commission has been used for this purpose in the past; for example, the bid by Enserch of the U.S. for Davy was rejected by the commission in 1981, partly on the grounds that it would damage Davy's role as a project leader for British industry.

Unsatisfactory

The Government is understandably reluctant to strengthen the Act in this way, for fear of sending the signals to potential foreign investors. Yet the Fair Trading Act procedures are unsatisfactory; they make it too easy for ministers, faced with political pressure, to duck out of the responsibility and hand awkward problems to the commission.

In general, foreign bidders should be subject to the same rules as domestic ones—and those rules should be as clear as possible. To erect a protective screen around companies regarded as national jewels would deprive foreign investors and deprive the country of access to fresh capital and management skills. Moreover, British companies want to be free to make acquisitions overseas; their interest is in relaxing the curbs on inward investment which exist elsewhere, not in creating new barriers at home.

"ON MARCH 3 banking operations in the United States ceased. To review at this time the cause of this failure of our banking system is unnecessary. Suffice it to say that the Government has been compelled to step in for the protection of depositors and the business of the nation." President Roosevelt, March 1933.

NOT since the Great Depression of the 1930s have ordinary Americans experienced a financial panic which gripped the conservative citizens of Cincinnati last week as they queued all night in some cases to withdraw their life savings from local savings banks.

At 7.30 am on Friday morning, Ohio Governor Richard Celeste assured himself of a place in the history books by announcing that in view of the severe and spreading loss of confidence, he was ordering a three-day bank holiday for the 71 local savings banks insured by the Ohio Deposit Guarantee Fund. Nothing like this has happened in the U.S. since President Franklin D. Roosevelt declared a nationwide Bank Holiday in 1933. It restored confidence but 4,000 banks never re-opened.

Governor Celeste's emergency action has sent fresh tremors through a nervous U.S. financial system which, less than a year ago, was rocked by the run on Continental Illinois, the eighth biggest U.S. bank. On that occasion, small depositors remained blissfully unaffected by the crisis of confidence which swirled around Chicago's premier bank. But this time more than half a million came to work up a sweat and the doors of their neighbourhood savings banks panicked.

For the first time the ordinary American bank depositor has been given a taste of the sorts of dangers lying ahead as the U.S. delegates its financial system. In so doing it has also exposed the fragility of public confidence in the nation's 3,300 savings banks and reminded regulators once again of the ease with which the unexpected collapse of a tiny financial institution can rock the whole system. However irrational it might seem there were distinct signs of a flight to "quality" in the U.S. financial markets on Friday as the dollar came under pressure and the Treasury bill rates plummeted while rates on bank Certificates of Deposit rose.

U.S. banking regulators have been anxious to play down last week's financial panic in Ohio, depicting it as a special case. Unlike the vast majority of U.S. savings banks, the 71 Ohio institutions which shut their doors on Friday, and which have assets of close to \$5bn, were not members of the Federal Deposit Insurance Corporation (FDIC). Hence they did not have the backing of the "full faith and credit" of the U.S. Government. So far, the run on deposits has not spread to the 170 Federally insured savings banks in Ohio nor the local commercial banks,

all of which remain open for business.

Nevertheless, U.S. savings bank regulators have been made uncomfortably aware that public confidence in the country's savings banks cannot be taken for granted. The U.S. thrift industry is far from healthy due to a combination of high interest rates and loans which turned sour and very dependent on the continued loyalty of its more than 100m small customers.

Over 1,000 U.S. savings banks are still losing money and even the industry's regulators admit that if you strip out the special accounting treatment which allows many savings banks to disguise the weak spots in their balance sheets, the industry as a whole probably has no net tangible worth to support its \$1 trillion (million million) of assets. The strains are showing.

In California, America's biggest savings bank, which is owned by Financial Corporation of America, recently estimated that it had lost between \$500m and \$700m in 1984, and has been forced to increase sharply the interest rates it is paying to prevent depositors deserting to a safer institution.

On the other side of the Continent, U.S. regulators have been working overtime nursing the Bowers Savings Bank and three other leading New York City savings banks which lost around \$10m last year. They have long since exhausted their true capital base and the regulators' rescue plans could be upset if small depositors were to take fright as happened in Ohio last week.

The run on Ohio's state-chartered savings banks began after Home State Savings, which did not even rank amongst the top 100 U.S. Thrift Institutions, shut its doors just over a week ago. Home State is estimated to have lost \$150m from the collapse earlier this month of ESM

Government Securities, a little known bond trader based in Fort Lauderdale, Florida. Once it became clear that there was not enough money in the local insurance fund to cover the losses, savers in many of Ohio's smaller savings banks panicked and the run spread like wildfire.

ESM is the fifth U.S. Government bond dealer to fail in the last three years and several U.S. officials now believe that its losses will exceed those of Drysdale Government Securities, Drysdale's collapse in 1982 severely shook the U.S. financial community.

Formed in 1976 by three bond dealers, Messrs Ewton, Eneka and Mead (hence the initials ESM), its basic business differed little from that of the hundreds of other second-tier

The ordinary U.S. depositor has had a taste of the dangers of deregulation

dealers in the mushrooming Government securities market where daily turnover frequently exceeds \$75bn.

The firm specialised in complex trading strategies, known as repurchase agreements, which are similar to short-term loans. In a typical deal a customer such as a savings bank would use its surplus cash to buy a "packet" of securities, which ESM would agree to buy back at a future date. ESM would get the cash and the savings bank got the securities as collateral with the repurchase price set high enough to provide the savings bank with a return on its investment.

When ESM failed, Mr Thomas Tew, the court-appointed receiver, discovered that ESM had borrowed \$1.6bn in securities for itself and its

customers and lent out \$1.3bn. That immediately left a \$300m shortfall.

Everything was fine for ESM as long as nobody looked too closely at its books, which was unlikely since it has always operated in a totally unregulated market. As long as its repurchase agreements kept enough cash coming in to meet its obligations when they fell due, ESM was able to keep its head above water. One U.S. Securities and Exchange Commission (SEC) investigator described ESM's actions as "a similar to running in front of a tidal wave." When one of ESM's customers became nervous and started asking awkward questions, ESM capitulated.

As the investigators began untangling the complex web of fin-

ancial transactions, the name of Mr Marvin Warner, a 67-year-old Cincinnati financier and former Ambassador to Switzerland, kept surfacing. Mr Warner, a close friend of ex-President Jimmy Carter and Ohio's present Governor, built an extensive financial empire in Ohio and Florida and at one time was said to be worth in excess of \$100m.

He made his fortune in the post-war housing boom in the South and until his resignation last week could often be found landing his helicopter on the roof of the state office building in Columbus, Ohio, where he held court as Chairman of the Ohio Building Authority.

Mr Warner controlled two of ESM's biggest customers, Home State in Cincinnati and American Savings and Loan Association of Miami, American

Ohio's problems would be to arrange a takeover by an out-of-state commercial bank, anxious to get a foothold in a new market. Citicorp, the most aggressive of the U.S. money centre banks in circumventing the barriers to interstate banking, has come to the rescue in the past.

It is too early to tell whether the run on Ohio's state-chartered savings banks will spill over into other parts of the U.S. financial system. On balance it would be surprising if it did. It would be more surprising if it did not.

Up to now the small depositor has not been harmed by the rapid deregulation of the U.S. financial services industry. But last week's events could inject a fresh element of instability into the U.S. financial system.

Falklands in the air

Breaking with previous tradition, the Government has gone to the Royal Air Force for the next commander of the British forces on the Falklands. Air Commodore "Kip" Kenyon, to be promoted Air Vice-Marshal, takes up the post in August.

He has considerable experience in operational flying and the appointment suggests that the future emphasis of the garrison commander's job will be on aviation. The new Stanley airport, able to handle big jets, opens in May.

The main military threat to the islands, is seen as a wild hit-and-run raid by Argentine pilots. Perhaps it is only coincidence, but the appointment comes only ten days after the Argentine military high command has been shaken up. For the first time an air force officer, Brigadier General Teodoro Waldner, heads the joint chiefs of staff. His personal view is that the Argentine navy case, the air force down in the Falklands conflict.

Higher spirits?

Drinkers and smokers probably have good reason to be nervous about the contents of the Chancellor's Budget tomorrow. A delicate balance between indirect and direct taxation—via liquor and tobacco—has been part of the basic budgetary equation for the last 100 years.

In 1885 the Chancellor of the Exchequer of the day, Hugh E. Childers, was offered such alternatives as taxes on cats, soda water, photographs, bicycles, and even names. But he stuck to tradition and raised the duties on spirits by 20 per cent and on beer by 9 per cent. He left wine duty undisturbed that year.

The Victoria Wine company which has been delving into the archives before tomorrow's wretched hour reports that even in 1885 the increase on spirits caused "some dismay in the House."

Nigel Lawson has it in his power to generate the same feeling 100 years later. Tax

already accounts for around 85 per cent of the retail cost of a bottle of Scotch whisky.

Roth's House

This is the morning when MPs who have not subscribed to the latest section of Andrew Roth's Parliamentary Profiles will be lining up in front of one of the House of Commons Library's eight chained-down copies in order to assess the likely damage, or advancement to their careers, generated by the entries.

Roth, a veteran political writer and Parliament-watcher has cornered a special market with his Parliamentary Profile Services Limited, which publishes his books. His Profiles combines the wicked word pictures of his old MP's Chart with the hard facts of his Business Background of members. Profiles contains, on average, 750 close-packed words on each MP.

To take a typical entry: Geoffrey Rippon will probably not object to Roth's reference to his chairmanship of twenty-two Britannia Group companies, or his £32,000 salary. And he is likely to appreciate the Roth assessment of him as a "shrewd, independent, anti-monetarist, City tycoon-lawyer." He is less likely to applaud the assessment from journalist Michael White that he is a "Day Before Yesterday Man."

And unexpected aspects of Geoffrey Robinson, Labour's assistant spokesman on trade and industry emerge. Robinson is well-known as a former British Leyland man who headed their Jaguar operation, and before that their innocent production in Milan.

Less well known is that he returned to England with an Italian wife, Marie Elena, an opera singer whose lack of enthusiasm for his deviation from tycoonery into Labour politics

Men and Matters

GENEVA
ARMS CONTROL
TALKS →



"Now the British want us to facilitate limitations on Milwall's away games."

was best illustrated by her crack, "I don't think I should follow hi milke a little dog."

Stern at the Fed

Appointments to the position of president of a regional federal reserve bank in the United States are always watched with close attention by the Wall Street money men. The 12 regional "fed" presidents, in rotation, fill four of the slots on the key, monetary policy-making, open market committee of the "fed."

While the regional federal reserve banks may often defer to the "fed" board in Washington, when it comes to the crunch each can enjoy its day in the sun from time to time in helping to decide in which direction the "fed" should be nudging interest rates.

The decision of the Minneapolis Fed that it is appointing Gary Stern its new president has caught "fed" watchers' eyes. He takes over from Gerald Corrigan, an intimate of the "fed" chairman, Paul Volcker. Corrigan became president of the most influential of all the "fed" regional banks, the New York Fed, at the beginning of the year.

Clearly it is no coincidence that Stern follows Corrigan. Stern was seven years at the New York Fed as an economist. Corrigan too worked there. Stern is no ideas man with orthodox views on economics. He is certainly not an ideologue of the monetarist or supply side persuasion. He says of himself that he is much more methodical than Corrigan—who he has described in an interview, in a somewhat enigmatic fashion, "more inspirational."

All this is certainly reassuring to the "fed" chairman Volcker. His critics in Washington will no doubt accuse him of seeking to "pack" the regional "feds" with former "fed" officials who are likely to be sympathetic with the bank's traditional approach to analysing the U.S. economy.

In Congress eyes will now turn to Jack Kemp, the "fed's" most outspoken critic on Capitol Hill, to see whether the Stern appointment leads him to step up his attack on the central bank.

Hard sell

A candidate for salesman of the year must be the vacuum cleaner representative who has been convicted of assault in London, Ontario.

He began demonstrating a cleaner to a housewife in spite of her protesting she was not interested.

Husband returned home. A fight broke out. Husband came off worst with cuts and broken dentures.

The salesman told the court his boss had told him "when someone says 'no' they really mean 'yes'."

Observer



How do those clever chaps at Pannells do it?

Tomorrow afternoon, the Chancellor of the Exchequer reveals his Budget for the next financial year.

By first thing Wednesday morning, clients of Pannell Kerr Forster will have a complete summary of all the salient points from his speech on their desk, to consider at leisure.

It is not so much inside knowledge as insight into our clients' needs which makes this small service so invaluable.

To find out what we mean, call Sylvia Fincham at our London office and ask for a copy of our 1985 Budget Summary.

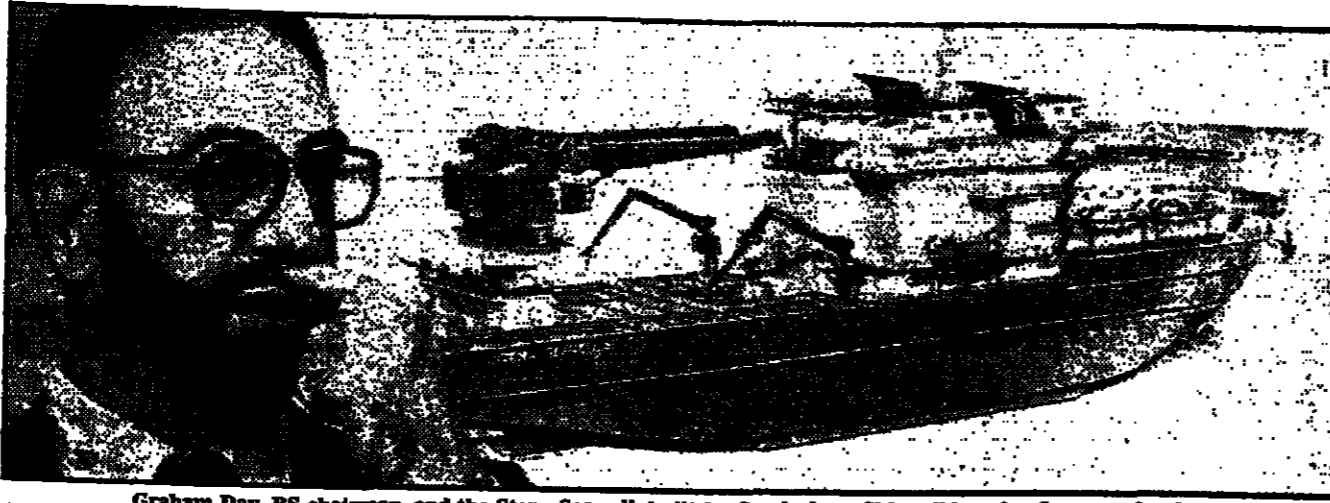
This summary is just one of many services we offer our clients and which extend well beyond the traditional requirement for audit and accountancy.

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BRITISH SHIPBUILDERS



Graham Day, BS chairman, and the Stena Seawell, built by Sanderland Shipbuilders for Stena of Sweden

At last a glimpse of Daylight

By Andrew Fisher, Shipping Correspondent

"AFTER THE euphoria," says Mike Mackie, the busy, fast-talking businessman who runs the Govan shipyard on the Clyde, "the hard facts set in. Then it's put-up or shut-up time."

The yard was euphoric last month after winning a £40m order to build a passenger and freight ferry of cruise-type standards for North Sea routes. It has not built a big passenger ship since the mid-1950s.

In those days, when the industry was still in private hands, the yard (then called Fairfield's) built the Empress of Britain for Canadian Pacific. The Clyde's very last big passenger ship was the mighty QE2, built in the late 1970s by John Brown.

Mr Mackie's "hard facts" are a reference to the tremendous task that Govan, part of state-owned British Shipbuilders, now faces in building the ship. "It's our testing ground; we'll get our feet wet and our fingers burnt but we'll gain a lot of experience."

The order, placed by Peninsular and Oriental Steam Navigation (P&O) for the new Sea Ferries company in which its partner is Nedlloyd of the Netherlands, is the latest in an unusual run of good news for BS.

New merchant ship business so far this year totals around £100m and nearly £300m worth of defence orders for two frigates have also been placed. Several other merchant orders are in the pipeline notably for Sunderland Shipbuilders, which hopes to receive a £45m order to build a crane-ship for a UK owner.

With BS's monumental losses now on the way down Mr Graham Day, the chairman, is picking up a £15,000 bonus for his first year to add to his £80,000 salary, the highest paid to the head of a nationalised company. He moved into the chair in September, 1983.

But despite the upturn in work and the fall in losses, attributable to a tough productivity drive and the sale or closure of the most obvious loss-makers, the group still has a hard road ahead. Thus, the "hard facts" that Mr Mackie spoke of have much wider application for BS.

On the three fronts of heading off losses, selling warships and pulling in manufacturing progress is being made. But jobs have suffered and more are being shed. This year alone, BS has announced it will have to make nearly 2,000 more redundancies. It now employs only 10,000 people and its head office sits against 34,000 at the time of nationalisation in 1977, and 22,000 two years ago.

So while it may seem most of the news at BS is good, what is left of the corporation must first pass its harsh tests—whether it can stand on its own feet with the minimum of subsidy.

In the eight years since nationalisation, the industry has had £1.5bn in public dividend capital, intervention fund subsidies for new orders (£250m alone), and redundancy payments.

This was why Mr Norman Lamont, industry minister, stated so bluntly in a recent speech: "We are at the most critical juncture in the history of shipbuilding in the UK."

Though willing to buy more time for the industry, "this Government is not prepared to maintain support without clear and unequivocal indications that the time that taxpayers' money so expensively buys is being put to the best possible use."

And it is to the Canadian-born Mr Day that the Government is looking for such signs. BS's latest merchant orders, including the ferry order which was against European and Far Eastern competition, still need subsidies.

Thus, added Mr Lamont, "although the short-term future may have been secured, the long-term has yet to be grasped."

The Government wants the EEC to allow, temporarily at least, higher subsidies for individual orders granted to cut the huge cost gap with Asia—the industry can adjust more smoothly to the tough market.

Mr Day reckons the UK industry has done more than any other in western Europe to reduce capacity over the last 18 months in line with the market and to increase that

capacity's effectiveness. What the outspoken, black-headed Mr Day has done at BS in his first 18 months in the chair is:

- Pushed through flexible working practices to break down demarcation lines and boost productivity. These were agreed early last year after some tough union opposition.
- Slimmed the group's size by closing three small merchant yards, selling most of the ship-repair activities, and retreating from the offshore rig sector, notably with the sale of the problem-ridden Scott Lithgow yard on the Clyde.
- Helped prepare for privatisation the warship yards. The largest are Yarrow, also on the Clyde, for which GEC and Trafalgar House (buyer of Scott Lithgow) have bid around £30m, Vickers at Barrow-in-Furness, and Vesper Thornycroft in Southampton. Cammell Laird on Merseyside and Swan Hunter on the Tyne, which have also built merchant ships, will also be sold. They shared the frigate order.

Thus, in about a year's time, BS will consist of several large and small merchant shipyards, groping their way out of the loss zone, though still needing order subsidies. Can they make it? "We are working towards break-even," says Mr Day. "It's a real psychological hurdle."

He thinks it can be achieved "within the planning horizon."

(BS's latest corporate plan runs to the 1987-88 financial year.) The group's losses have gone through some wild gyrations. The last published trading loss was £161m in the financial year to March 31, 1984, a large chunk over oil rig contracts with British and British Petroleum.

The year before that, losses had soared from £20m to £117m, with Scott Lithgow also the main culprit. But in 1984-85, BS reckons losses should be only around £50m. In the new financial year about to start, they should be lower.

Mr Day's attitude as BS chairman, with a close eye on market and financial realities, may be regarded by some, he admits, as "crazily commercial." Past views of running state concerns have tended to mix business aspects with those of public trustee and administrator—"a little bit above the commercial hurly-burly."

Under him, BS has stopped trying to compete with the rest of the world across the broad range of shipbuilding. It is content to leave the big tanker, bulk cargo, and container vessels to the Japanese and South Koreans.

Instead, with less than 2 per cent of the world market, BS aims to offer a range of more specialised vessels such as offshore support ships, ferries, gas carriers, dredgers, oil product tankers and multi-purpose cargo carriers.

It now takes a year or so of preparatory work and talks to land orders. "It's a long cycle, lumpy industry." But Mr Day is confident that BS will, in the 1984-85 financial year soon to end, achieve its merchant ship

order inflow target of around 200,000 compensated gross tonnes.

This will be around double the previous year and reverse two years of decline. (The measurement takes into account not just the weight and size of the ship, but also its work and time content.)

He is not expecting any recovery in the world industry. "It would be nice if the market picked up. But I'm not assuming any significant price or volume improvement in the short term."

Thus he reckons, "the only way we're going to survive is by becoming proportionately better."

Over the last year or so, productivity at BS yards has risen by well over 10 per cent, reflecting both investment—BS has to date spent more than £15m on computer equipment as a design and manufacturing aid—and greater flexibility between shipyard trades as a result of last year's deal with the unions.

Mr Mackie estimates that productivity at Govan, now employing 2,200 people, has gone up some 25 per cent since he went there in 1975. Then, it employed 6,000 people. The new ferry order will require it to add up to 300 jobs.

"We've got to be up-market to survive," believes Mr Mackie. The yard uses computers extensively and has moved to factory-type methods which save time, labour and thus money. It is currently building three coal ships for the Central Electricity Generating Board.

Mr Mackie has asked us to say that he was a "production assistant" on *Coronation Street*, and not a producer, as stated in last Saturday's *Financial Times*.

Instead of constructing the hull first and then putting in cabins, engines, and other equipment, with masses of men swarming over the ship and each skilled man waiting for another to finish, the trend is to build as much as possible in parallel.

Govan's increasing efficiency, says Mr Mackie, generates its own frightening impetus. "One of the things about better productivity is that you are creating a hungry, bloody animal and you've got to feed it."

Thus Govan hopes soon to win a Turkish order for three bulk carriers worth around \$30m. Because of the ferry, to be ready in 1987, one of these will now be built at Sunderland Shipbuilders.

At the small end of the market, Ferguson-Allis in Scotland concentrates on offshore supply and support ships. It has won some £13m of such business from Canada, and the UK in recent months—and has just won a £7m order from the UK Government for a fisheries research vessel.

"We had a very lean year in 1984," says Mr John Peach, managing director of Ferguson-Allis, which employs 750 people at Port Glasgow and Troon. Its highly specialised, high value-added ships are well suited in size and type to the sophisticated modular building approach.

It was mainly to act as a shock to the system that the Government brought in Mr Day to lead the group after Sir Robert Atkinson, under whom losses had declined and then shot up again. "If the situation had not been seen to be critical, I do not think I would have been invited to return," says the Canadian.

A former boss of Cammell Laird, recently turned a lifetime with the new frigate order after the workforce turned its back on militant pickets, Mr Day was to have become BS chief executive on nationalisation in 1977. But he left before the necessary Bill had passed Parliament, frustrated by lengthy delays.

He reckons he has so far done most of what he set out to do initially after his return in 1983. "It has been as arduous as I expected." He hopes no more major redundancies will be required after the latest batch.

"I heartily dislike making people unemployed. I hate that. But I have been totally convinced that unless you do, then the whole lot could be down the tubes."

"I am determined to do what I have to do."

Lombard

Now for a supply side programme

By Samuel Brittan

THE DAY before the UK Budget is a good time to remind ourselves that stagflation cannot be removed by the Chancellor raising a few taxes here, lowering others there, doing something clever in the financial markets and taking away the number he first thought of.

It might therefore be healthy to outline four examples of supply side reform which, if they were acted upon, would make far more difference to jobs and growth than anything strictly budgetary.

- The removal of all restrictions on coal imports.
- The removal of all domestic UK farm support not required by the EEC.
- The abolition of Wages Councils which fix the minimum pay of 2m to 3m workers.
- The abolition of rent controls.

It would be far more worth taking the political flack if these reforms were introduced together, so that the total benefits would be large enough to be noticed. Otherwise they might merely be seen as a series of vidual pieces of hard-heartedness.

The main reason for "not gloating" over the failure of the coal strike is that it is so easy for governments to snatch defeat from the jaws of victory. The two ministries most responsible for the Government's success over Arthur Scargill were Peter Walker's predecessor at energy, who made sure of ample coal stocks, and the minister in charge of the police, who defeated the flying pickets.

If their efforts are not to be thrown away, the artificial insulation of UK coal from international markets must end, by allowing the generating boards to buy coal in the cheapest market. Only then can we learn which pits have a chance of paying their way and begin the process of "workers' privatisation" which is far more important than "managements' right to manage."

It would be far-minded to couple the above with an attack on a very different interest group, the farming lobby. A recent study *Farming for Farmers* (Richard Howarth, Institute of Economic Affairs, £4) demonstrates how most agricultural support spills over into land, prices and benefits the landowner rather than the working farmer.

The UK's ultimate aim should be to let the CAP die of financial starvation, but in the meanwhile there are numerous support schemes, national price guarantees and price-rising marketing boards, especially for milk, which the Government could abolish of its own volition—not to speak of farm rating.

The third reform, the abolition of wages councils, should go without saying for a Government that talks of pricing people into jobs. Wages councils represent the false humanitarianism of preferring "no pay" to "low pay."

Yet scarcely credible though it is, the Government has kicked itself in the teeth by inspiring press stories that wages councils' control will be lifted mainly for the young, who form a small part of the labour force, and whom ministers want to pressurise into "training" in any case.

As for abolishing rent control, which is also unlikely, an excellent summary of the case was made by none other than the Chancellor's Parliamentary Private Secretary, Peter Riley, in a debate on March 8. In his own constituency of St Albans, jobs are available, but lack of accommodation is deterring workers from moving to take them.

Freeing rents would be both inequitable and less than fully effective so long as mortgage interest relief for owner occupiers remains. For the latter drives up the prices of houses and land, just like farm subsidies.

The four measures mentioned above are interrelated. Greater mobility is required if redundant miners or farmers are to find jobs and if full advantage is to be taken of the abolition of minimum pay. Thus decontrol of rents is an essential part of the package, which in its turn requires the phasing out of owner occupiers' privilege.

This last subject is regarded as the great unmentionable in Whitehall because of the Prime Minister's personal opposition, just like devaluation in Harold Wilson's day. Yet, as the Wilson period showed, there can be no permanent unmentionables; and Prime Ministers cannot be shrouded indefinitely from unwelcome truths, especially if they want to govern rather than reign.

Qualified people

From the General Secretary, Institution of Chemical Engineers

Sir,—In his Lombard column (March 11), Michael Prowse puts the case for promoting competition within the professions and then leads to a more provocative question as to whether there is a need for the professions at all, his claim being apparently based on the fact that the oil industry does not suffer because entry to that area of industrial activity is not restricted to "unwashed oil professionals."

This is a grotesque misunderstanding of the nature of an industry which needs to recruit people from many different disciplines, the main areas from which that industry recruits being engineering and science but also including a necessary smattering of lawyers, medicals and others. Indeed the oil industry in this country employs a greater percentage of professionally qualified people than any other industrial sector. If one analyses the professional background of the boards of directors and senior managements of the oil companies then to use Mr Prowse's phrase: a significant majority indeed do have fancy letters after their names.

The industry depends on the professions to accredit the academic component of education courses within the university and polytechnic sectors and at least in the case of engineers, the industry actively co-operates

Letters to the Editor

with the professional bodies on questions of training and responsible experience which lead to chartered status. T. J. Evans, 166-72, Railway Terrace, Rugby.

Looking at the Press

From the Managing Director, ORU.

Sir,—I read with interest Sue Cameron's report (March 12) on the Newspaper Society's sales conference at which I was a guest speaker. The quotes which were extracted from my presentation in the valid interests of lively journalism nonetheless painted rather an unfairly scathing picture of the local or regional press and its readers.

My company was commissioned to examine and suggest ways of optimising the regional press, and there is no doubt that an extremely strong popularity base for local newspapers emerged during our studies. Many publications are genuinely satisfied a remarkably diverse readership comprising people who were not all victims of the chronic human "frailties" selectively extracted from my talk.

To their credit, the Newspaper Society and its member publications are sufficiently professional to introspect constructively on their strengths and weaknesses. They are prepared to reassess their image, "product" and target audience in order to build on their existing success, using outside research consultants. I think this is a braver philosophy than that adopted by many examples of British industry who either do so half heartedly or indeed not at all. Graham Woodham, PO Box 203, Green Bank, EL.

Preaching to the unions

From Mr A. Tessler

Sir,—Mr MacGregor's letter (March 12) shows how little he has learnt from the tribulations of Nedo. He still focuses upon government policy and is unable to recognise that the three perhaps most decisive issues determining our competitiveness (productivity, design and export promotion) have nothing to do with government.

Why doesn't he—and others in Nedo—stop to ask: how is it that the French "Patronat"

succeeded in "selling" the productivity concept to the communist-led trade unions while he and his colleagues failed so miserably? They might have succeeded if—instead of wasting millions on reports—they had devoted those funds to a personal approach; preaching the "productivity gospel" to thousands of companies. Now, belatedly (and, in essence, McGregor concedes my point here) Nedo is trying to do it with a tiny "sales force." Far too little and too late. But he is certainly right when he corrects me on one point: it was not 20 but, as he says, 23 years that had been wasted. Andrew Tessler, Silverwood, Park Copse, Dorking, Surrey.

VDUs in the office

From the Director General, Business Equipment Trade Association

Sir,—Having read your appraisal (March 11) of the Apex report on the health aspects of using visual display units, I would like to comment.

It is of the utmost importance to emphasise that the use of the VDU is not, in itself, a health hazard. The information technology industry has always been at pains to point out the fact that any health problem is, in the main, caused by environmental conditions in the office—for instance, unsuitable lighting, furniture and office seating. And this is largely substantiated by the Apex report.

Richard J. Palmer, 8, Southampton Place, WC1.

Contribution rates and the affordability of future pensions

From Judy McKnight

Sir,—Mr Edward Johnston (March 1) surely does protest too much and answer too little. No one who has read his excellent 1983 quinquennial review doubts but that the cost of the state earnings related pension scheme (SERPS) will increase over the next 40 years—see appendix H indicates. On the then assumptions and at 1983-82 earnings levels, SERPS costs are projected to increase from £144m currently to £8.5bn in 2023-26. That report more properly and usefully indicates that, on the same assumptions, the total class 1 standard national insurance rate would increase over the period from 15.3 per cent to 20.5 per cent.

But the issues raised by Mr Cullen are more substantial and require a more careful response from the Government Actuary. In 1982 he assumed pension would be uprated in line with earnings from year to year. Current legislation in fact provides for increases in line with prices only and

reflects the government's policy and practice. Mr Johnston's 1984 publication shows that on the basis of prices only upratings, the increase in contribution rates (for pensions only) would be a rise from 12.5 per cent now to a mere 14.7 per cent in 2025-26. This latter projection not only includes revised estimates of fertility and mortality changes but also the reduction of the Treasury Supplement from 13 per cent to 11 per cent. It is hardly possible to reconcile Mr Johnston's estimate about the "substantial emerging pension payments during the first quarter of the next century" with contribution increases of a mere 2.2 percentage points over the next 40 years.

As Mr Johnston knows better than most of us, it is neither sensible nor relevant to consider the costs of pension payments in assessing the burden or affordability of future pensions. The key to understanding lies in changes in contribution rates. This is the measure which indicates whether our children will

reasonably be able or willing to afford our pensions. Contribution rate changes depend themselves not just on projections of demographic changes, but quintessentially on the basis of uprating pensions over the next half a century coupled with the average annual gap between price increases and earnings increases. The gap is a reasonable proxy to annual productive economic growth. It is from the increased wealth formulation of working contributors over the next 40 years that the increasing costs of state pension payments can readily be afforded, as even a cursory examination of the fine print of the Government Actuary's estimates reveal.

The most startling of the Government Actuary's 1984 assumptions is the bland acceptance that the gap between earnings increases and price increases over the next 40 years will be only 13 per cent annum.

This assumption, described by the Actuary as "not unreasonable for a longer term is at stark variance with the Chancellor's statement on January 31 that the underlying annual rate of growth of the economy was running at 3 per cent can be achieved in the current recession how much higher could growth be once the policies of the medium term strategy come to fruition? Either way it reinforces Mr Cullen's suggestion that the projections of future relative pensions costs have been based on unrealistically pessimistic assumptions. As a member of Mr Fowles's Revision Review team, Mr Johnston knows the answers as well as the questions. Mr Johnston can clear the imputations against his own and his Department's independence only by complete and explicit description of the assumptions for his projections—features which are lacking both in his 1984 publications and his letter of March 1.

Judy McKnight, Action for Benefits c/o Society of Civil and Public Servants, 124-130 Southwark Street, SE1.

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FINANCIAL TIMES

Monday March 18 1985



Michael Morgan on Wall Street NYSE's battle to stay No. 1

MR JOHN PHELAN, chairman of the New York Stock Exchange, last month set out his vision of the future. It was a world, he said, in which stock exchanges would be linked worldwide, engaged in 24-hour, seven-days-a-week trading in stocks of 200 to 300 large, well-managed companies.

The key to this brave new world, Mr Phelan added, would be unprecedented advances in technology. In recent years, the NYSE has completed a \$100m fully electronic trading system.

Mr Phelan's emphasis on the international arena underlines the NYSE's determination to remain the world's premier stock exchange. But technology is not only a weapon in the international market. It is also a necessary defence against the inter challenge to the exchange coming from the rapidly-growing, computer-based Nasdaq Over-the-Counter market.

Nasdaq is seen to pose a threat to the NYSE because of its attraction to many of the new, high-technology companies which are the big beneficiaries of economic growth. Traditionally, these companies like these would have used the smaller exchange as a route to a listing on the NYSE, but some of Nasdaq's erstwhile infants have now grown into mature companies without showing any signs of wanting to make the move to the Big Board, as the NYSE is familiarly known. Indeed, even the NYSE concedes that there are now 250 companies on Nasdaq that would meet Big Board listing requirements.

Nasdaq is growing up an extremely rapid pace, while total listings on the NYSE have been more or less stable for the last five years at about 1,550. Membership of the Nasdaq national market system - the most prominent part of the Nasdaq market, where stocks are subject to last sale reporting - grew from 682 to 1,080 in 1984 alone.

In response, the NYSE points out that 450 new companies have been listed - many from Nasdaq - since 1979, but a similar number have disappeared, swallowed up by mergers and acquisitions. It adds that the value of shares traded on the Big Board has grown from \$38bn in 1981 to \$78bn last year. The value of Nasdaq trading has grown from \$11bn to \$15bn in the same period.

The NYSE is responding to the challenge from the newer exchange on three fronts. First, it has spent heavily on technology to keep its trading system as efficient as possible.

The iron test for these new electronic systems has come in the last 12 months, when trading has been characterised by huge short-lived surges in demand. Only a few years ago the Big Board would have been unable to handle the 237m share deals which passed through the exchange on its record-breaking day of August 3 1984.

Second, the NYSE is edging ahead towards the 24-hour-a-day trading pattern. One sign is a proposal to extend trading hours by half an hour at each end of the day.

Another is a merger proposal with the Pacific Stock Exchange in Los Angeles. Some Big Board investors already use the Pacific Exchange to deal in stocks after the NYSE is closed, but a merger agreement would expand the range of stocks available to investors, and might be accompanied by an extension in the Los Angeles exchange's opening hours to allow trading to continue to as late as 7pm eastern standard time.

In addition, the NYSE is talking to the London Stock Exchange about the possibility of some joint venture, and says Tokyo would be the next logical step.

Third, the NYSE is aiming to expand its product range. The Big Board recently won approval from the Securities and Exchange Commission to trade stock options, and if the merger with the Pacific comes off, it aims to start trading the other exchange's existing options. Just over a year ago the NYSE introduced two stock index option contracts, which it would like to trade in the Pacific exchange after the proposed merger.

One question raised by this push towards new trading horizons is whether the NYSE will be able to maintain its high listing requirements, generally regarded as a model for other exchanges.

In particular, critics have homed in on a sub-committee proposal that companies should be able to create dual classes of common stock, which might have disproportionate voting rights.

Gandhi eases controls to stimulate industry

BY JOHN ELLIOTT IN NEW DELHI

A WIDE-RANGING relaxation of India's industrial controls was launched at the weekend by the Government of Mr Rajiv Gandhi in an attempt to stimulate industrial investment and efficiency.

Nearly half the companies covered by the country's monopoly legislation are to be freed from its basic controls, and 25 industries are being exempted from basic licensing procedures.

Customs and excise duties have been cut or removed on computers and other electronics equipment, and corporation tax has been cut at the start of three years of progressive reforms.

The plans, which provide India's private sector with its biggest challenge in the country's 38 years since independence, were contained in the budget speech delivered to the Indian parliament on Saturday by Mr Vishwanath Pratap Singh, the Finance Minister. They were widely welcomed by industry yesterday.

Mr Gandhi is committed to changing the course of India's traditionally protectionist policies and complex bureaucratic controls in an

attempt to boost annual industrial growth from 7 per cent to between 8 and 9 per cent.

Further measures will follow in India's annual trade policy statement early next month. They include a switch, already started, from detailed controls on individual imports to selective import duties.

The most dramatic announcement in the budget speech concerned the country's Monopolies and Restrictive Practices Act which aims at stopping individual companies growing so large that they form concentrations of economic power.

The bottom limit for the asset value of companies falling within the act's jurisdiction was raised from Rs 200m (\$15m) to Rs 1bn. This merely restores the limit to the level originally set in 1969, after allowing for inflation. It was a major concession, however, because there has been no increase in the past 15 years and the new limit is twice as high as the Rs 500m requested by industrial federations.

The Ministry of Industry estimates that about 800 of 1,700 com-

panies covered by the act will be exempted from the legislation. This means they will be allowed to invest in any industry instead of being restricted to the ministry's list of key industries, known as appendix one.

The 25 industries being exempted from basic licensing include motor components, cycles, machine tools, agricultural equipment, some industrial and office machinery, bulk drugs developed in India, leather goods, and glassware.

This move follows other recent changes in industrial licensing procedures, but is the most dramatic in a series of initiatives launched in the past four years.

To encourage the electronics industry, customs duties on some advanced computers not made in India are to be cancelled, and all excise duty on Indian-made and imported computers is being removed. Customs duties on some computer and other electronics components are being reduced to cut India manufacturing costs.

Tax incentives welcomed, Page 2

Leading chemicals groups lift plastics prices 10% in Europe

BY TONY JACKSON, CHEMICALS CORRESPONDENT, IN LONDON

PLASTICS prices across Europe are rising sharply after a long period of decline. Supply shortages are allowing major producers such as ICI, Shell and BP to push through increases of 10 per cent and more across a wide range of commodity products.

Severe weather in January caused damage to a number of plants throughout Europe, in the South of France especially. In many cases repairs are still being carried out. Also, a crack in a Cologne owned by Rheinische Oelfin Werke which exploded in January is still out of commission, and production difficulties are being experienced by Norwegian manufacturer Statol.

The price rises apply in particular to low density polyethylene (LDPE), high density polyethylene (HDPE) and polypropylene (PP). Given the acute overcapacity still existing in Europe, buyers had run stocks down in January and February in the expectation that the price weakness of previous months would continue further.

BP chemicals said as a result "stocks of both LDPE and HDPE are at their lowest level for two years." In PP, according to Shell, supply is very tight across Europe, and a number of producers have run out of stock entirely.

At a time when dollar strength is pushing the price of naphtha feedstocks to all-time highs, producers have had every incentive to take advantage of supply shortages, however temporary.

In LDPE, says Mr Ivan Gooch, a leading official for the UK plastics converting industry, "we have had two bouts of increases this year so far, amounting to around 10 per cent, and we are likely to be faced with another 10 per cent in the course of this month."

Increases are still arriving. BP Chemicals charges about DM 1.85 (55 cents) per kilo of general purpose LDPE, DM 1.80 for linear LDPE and DM 1.90 for HDPE. "By April," the company said, "we are looking for DM 2.00 across the board." In PP, Italian producer Himont raised its prices by 10 pps on

February 1, and again on March 1. On the second occasion it was joined by ICI and Shell, which have both pushed up prices by about 6 per cent.

The European industry uses D-Mark prices as a benchmark, but prices are being raised by the same amount in all local currencies, including sterling.

ICI said: "It looks like the recovery could go further." Shell said: "We are aiming for further increases in April and May."

It is widely thought, however, that the price increases could prove short-lived. The price collapses of last year - about 35 per cent, in the case of LDPE - were due to European overcapacity of up to 20 per cent, and attempts by producers to build market share ahead of the next downturn in hopes of avoiding plant closures. An additional cause was the expected arrival of low-cost product from Saudi Arabia. Both factors still apply, and Saudi linear LDPE is expected to reach Europe in quantity around May of this year.

First vote setback for Greek presidential candidate

By Andriana Ierodiakonou in Athens

THE GREEK Parliament yesterday failed to elect in the first round Mr Christos Sartzetakis, the ruling Socialist Party (Pasok) candidate, as president of the Republic.

The Supreme Court judge needed a two-thirds majority in the 300-member Parliament yesterday to get into the first of three rounds of voting. However, only 178 MPs voted in his favour, three votes were blank and three invalid. The 113 conservative opposition MPs who attended the poll abstained from casting ballots.

Three absentees made up the balance - one conservative and two Socialist MPs. One Socialist minister was travelling abroad on official business, and the second, Mr Yiannis Alevras is the acting President of the Republic and former speaker of the House whose right to vote in the presidential elections is in doubt under the constitution.

The result was disconcerting for the Government, not because their candidate failed to draw the 200 votes needed for election in the first round - the distribution of parliamentary seats in conjunction with the declared positions of the parties ruled this out from the start - but because it fell short of the reduced, 180-strong majority, needed to get Mr Sartzetakis elected in a third round on March 29.

The second round will be held next Saturday, but again 200 votes are needed for election.

If Mr Sartzetakis is not ultimately elected, the Socialists will have to cope with early general elections in May - automatically prescribed by the constitution having suffered a loss of political face. The Government caused a furore one week ago when it put forward a candidate for the presidency. The Socialists had previously supported the re-election of Mr Konstantinos Karamanlis, a former Conservative Prime Minister and Greece's President since 1980. Mr Karamanlis resigned after the Socialist decision was announced.

Furthermore, there may have been some dissenters among the 164 Socialist MPs who voted yesterday.

The close result makes the acting president's vote the decider and the Government is expected to fight to secure Mr Alevras' right to vote before the third round.

The country's constitutional experts, called on by the Government for advice last week, were divided on the issue. The Government has now decided to put the matter before parliament.

A Government official claimed yesterday that the results of the first round demonstrated "the complete unity" of the Socialist parliamentary group.

Iranian threat to main route

Continued from Page 1

barbament of Iranian cities. Several missiles yesterday hit the town of Dezful and nearby village of Andimeshk killing about 12 people and wounding 200, according to Tehran radio. Iraqi aircraft also attacked Iranian cities but Iran claimed that a raid on Tehran had been beaten off.

Iraq later declared Iranian airspace to be a prohibited war zone and said civilian aircraft could be exposed to attack from 1700 GMT today. Several European airlines serve Tehran and at least two last week announced a temporary suspension of flights.

The increased level of fighting in the Gulf war has brought a flurry of international appeals for restraint. Iraq yesterday sought the help of the United Nations in securing a ceasefire and a return by both countries to the international border. On Friday the Security Council urged a halt to attacks on civilian targets and the Pope yesterday said defenceless people were being overwhelmed by the conflict.

Damascus wary of showdown

BY RICHARD JOHNS IN BEIRUT

A TENSE stalemate on the outskirts of northern Beirut between the Syrian army and the Christian Lebanese forces continued yesterday with clear indications that Damascus, despite repeated warnings and the build up of military pressure, is reluctant to have an armed showdown with the "rebels."

Any attempt at decisive military intervention against the Lebanese forces would probably rally almost all the Christian population behind the Phalange Party, founded by the head of state's late father and constituting his main power base in the Christian community.

So far, the deployment of Syrian forces involving up to three brigades across a 16-mile front from Batroun on the coast inland seems to amount to no more than a sabre-rattling exercise designed to intimidate the dissidents opposed to Mr Gemayel's collaboration with Damascus and efforts to get agreement on political reforms providing for a more equitable power sharing

stituted Lebanese army against the dissidents could lead to its disintegration.

The continuation of the deadlock can only weaken the slender authority of President Gemayel following the blow delivered by the Lebanese forces, the combined militia of the Christian Maronites, to declare their independence from the Phalange Party, founded by the head of state's late father and constituting his main power base in the Christian community.

Foreign diplomats believe Mr Geagea already enjoys the backing of the majority of the Christian community, thus placing President Amin Gemayel in an increasingly untenable position which could lead to his resignation. They believe any move by him to mobilise the recon-

needed if there is to be a lasting political settlement.

The crisis in the Christian heartland of Lebanon generally thought by Moslems to have been stimulated by Israel - has led to what appears to be an intensified effort by Islamic Shia extremists, presumed to be members of Hezbollah, the Iranian-backed "Party of God," to drive foreigners out of predominantly Moslem West Beirut.

On Saturday, Mr Terry Anderson, Middle East bureau chief of the Associated Press news agency, who is a U.S. citizen, was kidnapped by armed gunmen. Earlier last week two Britons, scientist Mr Geoffrey Nash and businessman Mr Brian Levick, were abducted.

Following the phased withdrawal of most U.S. Embassy staff from Christian-controlled East Beirut Mr David Miers, the UK Ambassador, has advised British citizens to leave West Beirut.

Fed in crisis talks on Ohio banks

Continued from Page 1

Hundreds of depositors in this normally conservative state expressed growing scepticism, anger and frustration about the savings bank closures that have left many of them without access to their money. A hotline set up by the Governor to handle inquiries from anxious depositors was receiving more than 1,000 calls an hour

The closures have already split the state's financial and commercial community. Some federally insured savings banks set up emergency cash drawing rights for customers of the closed thrifts. Others, and some shops, now refuse to accept cheques drawn on non-federally insured accounts. Many savings bank customers complained that

cheques drawn on their savings bank accounts well before the bank holiday were declared have been returned. Banks and shops are not accepting cheques drawn on Home State accounts since its closure 10 days ago.

Radio station chat shows and newspapers throughout the state have been deluged with queries

World Weather

Location	Temp	Wind	Cloud	Temp	Wind	Cloud
Algeria	18	10	12	18	10	12
Amman	18	10	12	18	10	12
Algiers	18	10	12	18	10	12
Amman	18	10	12	18	10	12
Amman	18	10	12	18	10	12
Amman	18	10	12	18	10	12
Amman	18	10	12	18	10	12
Amman	18	10	12	18	10	12
Amman	18	10	12	18	10	12
Amman	18	10	12	18	10	12

Right gains in France

Continued from Page 1

According to these first estimates, the left would poll about 45.5 per cent of the vote in these cantons compared with 45 per cent last week, while the right-wing opposition parties would poll 53 per cent compared with 54.2 per cent last Sunday.

However, the left was generally expected to do better in the second round because voting was predominantly in more urban centres, compared with the first round involving 18m voters and many rural areas won by the Opposition.

The national elections are the last major series of local elections

in France before the parliamentary elections next year. They have thus been regarded as a key national political test and a pre-run of the 1986 legislative polls.

One of the most interesting aspects of the second round of the cantonal elections was the way in which supporters of the extreme right National Front would vote. The National Front finally agreed last Wednesday to drop candidates in cantons where other right-wing candidates had chances of winning. In the first round, involving about 2,000 cantons, the National Front polled 8.69 per cent of the vote.

THE LEX COLUMN

Mr Lawson's box of mysteries

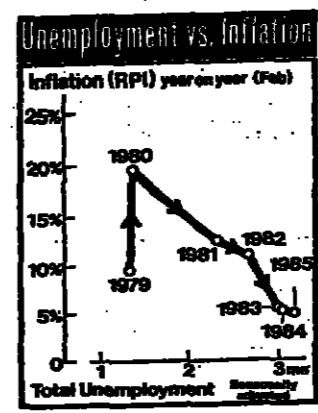
If Mr Nigel Lawson, the UK Chancellor of the Exchequer, had achieved nothing else by means of his first budget in 1984, he could at least claim to have given the City of London a new and much more interesting way of worrying about budgets to come. The traditional guessing game, in which teams of economic analysts competed to estimate the size of the fiscal stimulus, had lost a lot of its edge in an era of medium term strategies - however loosely implemented. Monetary specialists could still earn some kudos (and large gilt-edged commissions) by working out how much government debt the market would be asked to buy; but with every year that passed, the equity market was becoming palpably less sensitive to the level of demand in the economy.

By the time Mr Lawson became Chancellor, creeping boredom had almost succeeded in reducing the budget to its proper constitutional place - as one half of a book-balancing exercise, rather than the focus of the financial year. At that point, the Chancellor's change in the rules, to concentrate on the amount of structural change he could accommodate in a given fiscal package - as well as the size of the budget - came as a shock. This year, it has caused a bull-market in pre-budget speculation; now that there is more to guess than the difference between two large numbers, the game is much more fun.

Resistance

Less fortunately for the Chancellor, diminishing political returns to innovation appear to have set in rather fast. Last year's reshaping of company tax gave him an easy start in the campaign for fiscal neutrality, since the heaviest burdens fell on the banks, for whom nobody had much sympathy to spare. But it has been obvious to the most stolid of backbenchers that the next target for reform, the taxation of savings, could prove almost as hard to sell in rural Britain as in the boardrooms of insurance companies. The endemic drawback of structural reforms - that they offend entrenched interests - is bound to be a particular problem for conservative reforms.

For all that, the proposal to tax the investment income of pension funds has remained persistently in the air - along with the taxation of lump sum benefits - and it looks as if the funds may succeed the clear-



ing banks as this year's principal butt of tax reform. There is indeed, a respectable case to be made for shifting the balance in favour of personal saving, which would be consistent with the Government's recent talk of an "enterprise budget" - and increase the capacity of small shareholders to pay the calls on their holdings of British Telecom to boot.

But if pension funds are to be pulled into the tax net, it should be in the cause of improving the long-run trade-off between personal and institutional saving: glad, as the funds might be to escape with a supposedly exceptional levy - along the lines of the windfall tax on banks - there is no fiscal logic to such a Sheriff of Nottingham tactics. The best that the Treasury could claim for such a raid would be a permanent increase in the uncertainty of plans to avoid tax, which may be no bad thing when it comes to revenue-raising but contradicts everything that the Government has ever said about the consistency and predictability of its taxation policy.

Uncertainty as to the content of the budget has in general been greater this year than for some years past, no doubt intensifying the Chancellor's amusement at the flood of conjecture. Security has been blunted by any new strategic themes perhaps more effectively than individual measures. Thus, the departure which has been most thoroughly prepared is a modest extension of the VAT base, generally supposed to include newspapers, or their advertising revenue, commercial buildings, and caviar. A piece-meal extension of this kind would look little more than an attempt to replace the additional VAT revenue that came in on a one-off basis last year through accelerated payment.

Of course, until the sterling crisis which blew up in January, it appeared that Mr Lawson not only had the chance to change the pattern of taxation, but an exceptional free choice of fiscal stance. The combination of steady devaluation, reviving exports, a reasonably stable dollar oil price and relatively slack interest rates gave him an unusually free hand, despite the costs of the coal dispute. Despite the expected bounce-back in output, in the case of at least half the model, that freedom has almost completely evaporated. Such is the way of things, moreover, that the perceived need for a tighter financial bill seems to have been reinforcing the opposition to fiscal reform.

If the markets succeed in getting a tight tax budget, on top of the recently stiffer interest rate policy, they may not enjoy it much. And if Mr Lawson produces a small fiscal adjustment and a PSBR much below £7bn the probability is that the gilt-edged market and the currency speculators will not believe him in any case; the White Paper on expenditure is not an encouraging prelude. In the background, parliamentary pressures to finance an expansion mount as the next general election rises over the planning horizon. It gets harder, even for the gilt-edged market, to ignore figures which suggest diminishing electoral returns to tightness - as well as to novelty.

CAPITAL TRANSFER TAX

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The (mortal) owner of a successful private company decided to raise money by a public share issue. He transferred a parcel of shares to a trust fund which was established for his children.

The shares have tripled in value. The increase will pass to the next generation free of tax.

CTT threatens your family assets if they are:

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- substantially represented by non-cash securities (property, farmland, shares).

The threat arises because a tax claim might make a sale necessary at a time when values are temporarily depressed.

If your family assets could be threatened, contact Deloitte. People always die at the wrong time.

Post to: Hugh Blakeley Webb, Partner
Personal Financial Planning Division,
Deloitte Haskins & Sells,
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London EC4A 3JX. Tel: 01-248 3913

I should like a copy of your booklet "Capital Transfer Tax - planning to avoid it" (available 21/3/85) ☐

I should like to discuss Capital Transfer Tax with one of your partners ☐

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Position _____

Company _____

Address _____

Telephone _____

Deloitte Haskins + Sells

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Ohio close-down prompts flight to quality

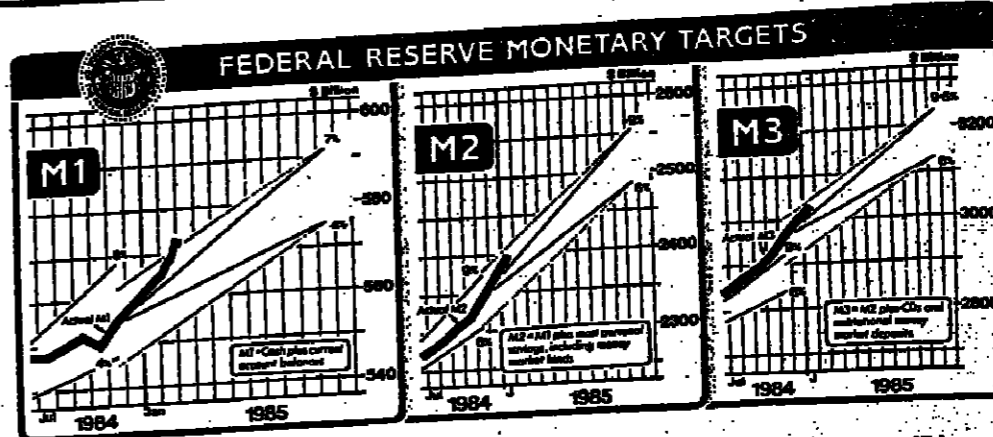
NV, still seems to be fairly strong, but there is continuing sluggishness in the manufacturing sector, partly reflecting the strength of the dollar, which has allowed imports to take market share away from domestic manufacturers.

There are two major concerns about the rapid pace of monetary growth and the current tactics of the Fed. The money supply figure this week showed a \$400m drop in M1, but this was very much in the range of normal fluctuations. It still leaves the basic money supply about \$75m above the upper limit of the Fed's target range. At the same time, the M2 and M3 measures are also well above their target ranges. The Fed's bank planner

day, borrowings at the discount window, where the banks are forced to go when the Fed restricts liquidity in the money markets, jumped to \$4.91 billion, against an average of \$4.19 in the previous week. These figures suggested a "slightly tighter credit policy," said Mr. William Sullivan, of Deutsche Wirtel, Remond, and Philbrick. Philip Braverman, of Briggs Schaeffle, said the evidence pointed from definitive, but it suggests that the Fed has tightened sufficiently to keep the Funds rate within an 8 1/2 per cent to 9 1/4 market. Some economists argued caution in reading too much into one week's figures, but corporate treasurers are not waiting for these conflicting

Month	Actual bid (%)	Offer (%)	all Companies (%)
Jan 1984	~10	~15	~5
Mar 1984	~15	~20	~10
May 1984	~20	~25	~15
Jul 1984	~25	~30	~20
Sep 1984	~30	~35	~25
Nov 1984	~35	~40	~30
Jan 1985	~40	~45	~35
Mar 1985	~35	~40	~30
May 1985	~30	~35	~25
Jul 1985	~25	~30	~20
Sep 1985	~20	~25	~15
Nov 1985	~15	~20	~10
Jan 1986	~10	~15	~5

Year	All-Industrial Index	Merrill Lynch Investment Fund
1984	~380	~380
1985	~580	~550



in January. The credit markets reacted predictably, seeing this as a sign that growth was still a little too lively, and pushed rates back up again. On Friday, Washington produced another set of contrary figures— industrial output statistics showing a 0.5 per cent decline in February. But by that time the markets were fussing so much on the savings banks in Ohio as on how to react to the economic news.

Some analysts take the view that there is no great inconsistency in the economic figures in any case. Final demand, they

central bank planned.

Despite this rapid expansion in the monetary aggregates, many analysts have recently been arguing that the Fed has been maintaining a relatively neutral stance on credit, partly because it would not want to see interest rates go higher and thereby give even more support to the dollar. But a combination of tightness in the Federal Funds rate this week, and an unexpectedly large increase in bank borrowings at the Fed's discount window, have given rise to increasing uncertainty.

In the week ending Wednes-

J.S. DOLLAR STRAIGHTS		Chg	
		Issued	Price
AHFC O/S Fin 114	94	100	98 1/2
Amer Saving 124	99	100	99 1/2
Amer Savg 124	99	100	99 1/2
Asian Dev Bk 114	93	100	96 1/2
Australia 114	80	100	96 1/2
Australia 114	80	100	96 1/2
Australia 114	80	100	96 1/2
AIDC 114	88	75	97 1/2
Austria 189	88	75	100 1/2
Bk America 12 87	94	250	100 1/2
Bk Nova Scotia 134	94	100	100 1/2
Bank of Tokyo 134	94	100	100 1/2
Bank of Tokyo 134	89	100	100 1/2
Bee Nat Pans 134	89	100	100 1/2
Bee Nat Pans 134	89	100	100 1/2

	Yield		
Teacore	10 1/2	80	-----
Teacore	10 1/2	80	-----
Teacore Capital	13 1/2	89	-----
Teacore	12 1/2	81	-----
Teacore	11 1/2	81	-----
Teacore	12 1/2	81	-----
Tokyo Electric	6 1/2	88	-----
Tokyo Electric	13 1/2	88	-----
Toronto-Dominion	12 1/2	89	-----
UHS	12 1/2	89	-----
Val's	9 3/4	-----	-----
Warner-Lambert	10 1/4	89	-----
West LB	11 1/2	80	-----
Weyerhaeuser	11 1/2	80	-----
Yasuda Trust	12 1/2	89	-----

FLUATING RATE NOTES

Ash. Bank Can	1 56
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[illegible]

PRICE			
la	85	81	18 104% +0%
la	85	82	18 100% +0%
la	85	92	16 103% +0%
la	85	85	10 100 %
la	75	84	10 100 %
la	85	82	10 103% -0%
vest	85	75	35 103 +0%
vest	85	84	35 104% +0%
la	85	87	18 105% +0%
la	85	87	18 105% +0%
la	85	84	18 101% +0%
la	81	85	18 108% +0%
land	75	80	15 109% +0%
land	75	80	15 109% +0%
land	75	82	15 102 +0%
land	75	82	34 103% +0%
land	75	84	34 103% +0%
Bank	75	84	20 97% +0%
Bank	75	83	20 101% +0%

Investors wait for Budget fine print

Brokers Grieverson Grant, for example, estimates that the introduction of a 10 per cent tax on pension fund income could imply a fall of about 5 points in the price of conventional long-dated gilt, although the price of high-yield gilts could benefit.

The general view on the public borrowing and monetary fronts is that the market is discounting a 1985-86 public borrowing requirement of £7bn or slightly less, and a target range for sterling M3 growth of 5 to 9 per cent.

But the catchphrase in the market was "robustly arithmetic" with investors at least as concerned with the visibility of the assumption of the borrowing target as the figure itself.

The bill will also be watched closely to see whether Mr Lawson indicates that he intends to keep the money supply around the mid-point of its

target range, rather than be satisfied with it bumping along at the top.

The Chancellor does however face the budget hurdles, however there are many in the market who believe that the outlook for gilt-edged bonds is promising, particularly if the problems in Ohio keep the dollar subdued.

The balance of expectation in the City is that there should be a small post-budget cut in base rates.

The Bank's heavy funding last week also holds out the possibility of a good money supply growth rate, a factor which is of March which ends on Wednesday.

For that brighter outlook to feed through to gilt-edged prices, however, Mr. Thatcher must do a good job of persuading the market that the risks will be taken with the exchange rate and inflation.

Philip Stephens

[illegible][illegible]

250	100	+0%	5%	STRAIT
100	101	+0%	5%	GUIN
100	100	+0%	10%	ABN
100	100	+0%	5%	ABN
400	100	+0%	5%	ASN
400	99%	-1%	11%	Amro,
100	100	+0%	5%	SK
100	100	+0%	5%	SK
100	100	+0%	5%	SK
600	100	+0%	10%	SK
100	100	+0%	10%	C C
100	100	+0%	10%	C C
250	100%	+0%	10%	C C
100	100	+0%	10%	C C
300	100%	+0%	5%	Net
100	100	+0%	5%	Net
100	100	+0%	10%	Net
250	100	+0%	10%	Net
200	100	+0%	11%	CANA
400	101%	+0%	11%	STRAIT
400	100	+0%	10%	Br Co
400	100	+0%	10%	Br Co
300	100	+0%	10%	Br Co
400	100	+0%	10%	Farm
100	99%	-1%	10%	Int
100	99%	-1%	10%	Int
125	100	+0%	10%	Monro
100	99%	-1%	10%	Quebec
100	99%	-1%	10%	Quebec
50	99%	-1%	12%	ECU
100	100%	+0%	10%	AGU
200	100%	+0%	10%	AGU
100	100%	+0%	10%	Cred
100	100%	+0%	10%	Cred
40	100%	+0%	5%	Zboz
100	100%	+0%	5%	SEC
100	100%	+0%	5%	SEC
100	100%	+0%	10%	SEC
100	100%	+0%	10%	SEC

[illegible]

Banco Hispano Americano Limited

(formerly Banco Urquijo Hispano Americano Limited)

Results for year ended 31st December 1984

PROFIT AND LOSS ACCOUNT		
	<u>1984</u>	<u>1983</u>
Profit for the year after providing for taxation, and after making transfers to inner reserves from which provision for deferred taxation has been made	£1,434,243	£1,208,569.
<hr/>		
BALANCE SHEET		
	<u>1984</u>	<u>1983</u>
<u>Shareholders' Funds and Liabilities:</u>		
Share Capital: Authorised	£ 14,000,000	£ 14,000,000
Issued and fully-paid	£ 8,000,000	£ 8,000,000
Retained Profits	8,369,540	6,935,297
Subordinated Loan Capital	6,000,000	6,000,000
	22,369,540	20,935,297
Deferred Taxation	2,132,000	-
	326,619,650	222,196,376
Current Liabilities	9,502,363	10,039,982
Acceptances	£360,623,553	£253,171,655
<u>Assets:</u>		
Cash on hand and at bankers, money at call and short notice	£ 75,993,402	£ 55,497,635
Certificates of Deposit purchased	4,703,466	20,322,607
Deposits with banks and discount houses	98,221,942	33,037,077
Loans and advances	49,126,940	38,165,925
Interest receivable and other assets	22,352,904	7,818,064
Listed securities	5,941,385	4,535,648
	256,340,039	159,376,956
Medium Term Loans	81,205,343	73,555,246
Property and Equipment	819,121	606,789
Net Investments in Finance Leases and Hire Purchase Agreements	12,756,687	9,592,682
Customers' Liabilities for Acceptances	9,502,363	10,039,982
	£360,623,553	£253,171,655

CHANGE OF NAME

The Bank is effectively a wholly-owned subsidiary of Banco Hispano Americano, S.A., and consequently the name of the Bank was changed on 15th March 1985 from Banco Urquiuo Hispano Americano Limited to **Banco Hispano Americano Limited.**

The above figures are an extract from the full accounts which will be filed with the Registrar of Companies and upon which the Auditors have issued an unqualified report.

Copies of the 1984 Report & Accounts may be obtained from The Company Secretary,
Ico Hispano Americano Limited, 15 Austin Friars, London EC2N 2DJ, Tel: 01-628 4499 Telex: 881397

[illegible]

+0.00	TEBASSO	100	93
+0.00	Texas Capital	139	85
+0.00	Texas 11%	115	90
+0.00	Texas 12%	115	90
+0.00	Texas 13%	115	90
+0.00	Texas 14%	115	90
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+0.00	Texas 100%	115	90

[illegible]

Bank 92	15	100%	+0%	2.1
Bank 93	15	100%	+0%	2.1
Bank 94	15	100%	+0%	2.1
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Bank				

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Grain		Oil		Cotton		Wool		Hides		Fur		Misc.	
Commodity	Unit	Price	Change	Commodity	Unit	Price	Change	Commodity	Unit	Price	Change	Commodity	Unit
Wheat	Bushel	1.15	+1/8	Soybean	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Barley	Bushel	1.15	+1/8	Peas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Oats	Bushel	1.15	+1/8	Lentils	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Rye	Bushel	1.15	+1/8	Chickpeas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Millet	Bushel	1.15	+1/8	Flaxseed	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Sorghum	Bushel	1.15	+1/8	Sunflower	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Triticale	Bushel	1.15	+1/8	Canola	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Mustard	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Sesame	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Flax	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Soybean	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Peas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Lentils	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Chickpeas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Flaxseed	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Sunflower	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Canola	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Mustard	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Sesame	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Flax	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Soybean	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Peas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Lentils	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Chickpeas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Flaxseed	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Sunflower	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Canola	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Mustard	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Sesame	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Flax	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Soybean	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Peas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Lentils	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Chickpeas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Flaxseed	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Sunflower	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Canola	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Mustard	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Sesame	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Flax	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Soybean	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Peas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Lentils	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Chickpeas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Flaxseed	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Sunflower	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Canola	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Mustard	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Sesame	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Flax	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Soybean	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Peas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Lentils	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Chickpeas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Flaxseed	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Sunflower	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Canola	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Mustard	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Sesame	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Flax	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Soybean	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Peas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Lentils	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Chickpeas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Flaxseed	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Sunflower	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Canola	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Mustard	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Sesame	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Flax	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Soybean	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Peas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Lentils	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Chickpeas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Flaxseed	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Sunflower	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Canola	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Mustard	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Sesame	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Flax	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Soybean	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Peas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
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Quinoa	Bushel	1.15	+1/8	Chickpeas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Flaxseed	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Sunflower	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Canola	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Mustard	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Sesame	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Flax	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Soybean	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Peas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Lentils	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Chickpeas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Flaxseed	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Sunflower	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Canola	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Mustard	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Sesame	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Flax	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Soybean	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Peas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Lentils	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Kamut	Bushel	1.15	+1/8	Chickpeas	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Quinoa	Bushel	1.15	+1/8	Flaxseed	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Amaranth	Bushel	1.15	+1/8	Sunflower	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Buckwheat	Bushel	1.15	+1/8	Canola	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Speltz	Bushel	1.15	+1/8	Mustard	Bushel	1.15	+1/8	Cotton	Seed	1.15	+1/8	Wool	100 lbs
Farro	Bushel	1.15	+1/8	Sesame	Bushel	1.15	+1/8	Cotton	Lint	1.15	+1/8	Wool	100 lbs
Emmer	Bushel	1.15	+1/8	Flax	Bushel	1.15	+1/8	Cotton					

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: U.S. dollars unless indicated. Margin above six-month U.S. Government rate (three months if above mean rate) for U.S. dollars. C.p.m. = current coupon.

CONVERTIBLE BONDS: U.S. dollars unless indicated. Prem = percentage premium over current market buying shares via the bond over the most recent share price.

WARRANTS: Share price at warrant exercise premium over current share price. Warrant exercise yield = exercise yield at current warrant price.

* Perpetual.

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INTERNATIONAL CAPITAL MARKETS AND COMPANIES

CORPORATE FINANCE

Fire-fighting over for Hongkong Land

TWO YEARS ago, in the wake of the Hong Kong property crash, not a few local analysts would have quoted poor odds on Hongkong Land's chances of surviving. Last week, Mr David Davies, the managing director, reported a return to profits, the restoration of debt to a "perfectly comfortable" level, and the revival of expansion plans.

"The period of fire-fighting is over," he said while unveiling a 1984-85 profit forecast of HK\$50m (U.S.\$6.4m) — modest on a turnover of HK\$10.24bn, but impressive after losses in 1983 of HK\$1.28bn.

Two other events last week gave glimpses into the group's painstaking haul back towards corporate health — an interest rate swap agreement with the Bank of Tokyo to raise HK\$100m, and a plan to raise HK\$750m from shareholders through a preferred share offer. Both cap a two-year effort to bring debt back under control.

When property values slumped in Hong Kong in the autumn of 1983, Hongkong Land was hopelessly exposed. It had committed itself to major construction projects when the market had been at its peak, and when the market went more to lose. When prices steadied at about half their peak levels, the group faced the prospect of selling or renting space at a significant loss.

As debts surged towards a peak forecast at HK\$1.8bn, Mr Bill Wavish, the group's beleaguered finance director, trailed over 40 banks for support: "We knew we didn't have a lot of time before the doors began to close in our face," he recalls. The HK\$400m syndication arranged with 13 banks just as the collapse began was therefore a life-saver, lifting facilities to HK\$20.7bn.

The first priority of making sure money was available had been met. Any remaining fears on this count were eliminated in January this year, when the group sold its 34 per cent stake in Hongkong Electric for HK\$2.9bn. Mr Simon Keswick, the group chairman, described this sale as "a major step in the financial regeneration of the company." It reduced group debt by 20 per cent to less than HK\$1.2bn "at a stroke."

The second priority — to make sure the cost of the money was not too variable — was not so easily solved. Of the HK\$1.8bn borrowed in 1983, only HK\$88m was medium-term money, and only HK\$1bn was at fixed rates of interest. Political uncertainties over Hong Kong's future swept interest rates up to 30 per cent in September 1983, and 28 per cent in July last year.

"With our kind of debt burden, we couldn't afford to roll over variable money at those kinds of rate," Mr Wavish said. "We urgently needed to get more medium-term money, and to get it at fixed rates."

Since then, Hongkong Land has privately arranged 15 in-

terest rate swaps worth HK\$1.3bn. The swap arranged last week through the Bank of Tokyo, which lifts the aggregate amount to HK\$1.4bn, was the first time a Hong Kong borrower had entered the local fixed-rate market in order to swap simultaneously for variable rate funds.

This "first" gives the Bank of Tokyo funds at 3 per cent below the Hong Kong interbank borrowed rate (Hibor), and gives Hongkong Land fixed-rate funds at 11.62 per cent. Such manoeuvres — which will be repeated whenever the opportunity arises, according to Mr Wavish — have enabled the group to keep average borrowing costs at 11.7 per cent over the last year in spite of the volatility of the capital markets.

The call on shareholders to take up a preferred share offer intended to raise HK\$750m would have been impossible a year ago, in the wake of annual losses of almost HK\$1.3bn, and with the local

stock markets beset with political uncertainty.

Even now, the offer has had to be heavily sweetened. Dividends are guaranteed, even though ordinary shares currently receive a nominal 1 cent a year. Farrants is staggered over six months, and a detachable warrant has been tagged onto each preferred share, allowing those who take up the offer to buy one further share at any time up to 1991 at a fixed price. Even with all the sweeteners, the HK\$750m raised will be at an effective interest rate cost of less than 7 per cent.

While the group still has formidable problems to solve, Mr Davies can now claim that income is covering both recurrent and capital spending costs. He says debt will have fallen by the end of 1985 to a "perfectly comfortable" 72 per cent of group equity. For the first time in three years, there is no question that the company will survive.

David Dodwell

INTERNATIONAL APPOINTMENTS

Bekaert chair for another grandson

BY PAUL CHEERIGHT IN BRUSSELS

MR JEAN CHARLES VELGE, 55, grandson of Leon-Leandre Bekaert, who founded Bekaert, the Belgian wire and steel cord company, is to take over as chairman from another grandson.

Mr Velge takes up his new appointment in May and Baron Antoine Bekaert, also 55, steps down.

The Bekaert company is now the biggest independent group of its kind in Europe, and is one of the champions of Flemish capitalism in Belgium. As such, it is under intense pressure to take a larger role in Flemish social, economic, and political affairs.

Baron Bekaert is already active in this area, and the family sees his move out, with the position of honorary chairman, and Mr Velge's move in as a natural division of responsibilities.

The two men have worked together in a sustained expansion of the group since the 1970s. Bekaert now has plants in 14 countries and a turnover of some BFR 30bn (\$445m) a year. Hitherto Mr Velge has been the chief executive officer. A civil engineer by background, Mr Velge has spent all his working life in the Bekaert group. His mother was the daughter of the group founder.

The Bekaert-Velge interests remain the majority shareholders in the group, but in recent years there has been an influx of management from outside. This is reflected in the appointment of Mr Karel Vinck, who joined Bekaert from Eternit, the asbestos sheeting group, two years ago, and now becomes chief executive officer in Mr Velge's place.

S & P takeover prompts Smith to leave Pabst

Pabst Brewing announced over the weekend that Mr William F. Smith, its president and chief executive officer, and Mr John Brzezinski, its executive vice-president, had resigned effective on Friday. It gave no reason for the resignations. Reuter reports from Chicago, Mr Smith said in an interview that his resignation was caused by the previously announced takeover of Pabst by S. & P. He said he has "some philosophical differences" with Mr Paul Kalmanovitz, S. & P's chairman. He would not be more specific about his relationship to Mr Kalmanovitz, but said "At this point, I thought it was better to leave the company."

Bear Stearns resignation

Mr Peter Ganschinzeltz has resigned as managing director of Bear Stearns International, the London Eurobond sales, trading, and syndication operation of the Wall Street investment house. Reuter reports from New York.

The firm said Mr Ganschinzeltz had left to pursue other opportunities. Until a successor is named, London fixed-income operations will be managed by Mr Frank Martucci and Mr Edward Rappa, general partners of the parent company responsible for fixed-income trading and sales respectively.

Anthony Solomon to advise BCI

BY STEWART FLEMING IN WASHINGTON

MR ANTHONY SOLOMON, former president of the Federal Reserve Bank of New York, has taken up an appointment as an adviser to the management board of Banca Commerciale Italiana (BCI), Italy's second largest commercial bank.

Mr Solomon retired from the New York Fed at the end of last year saying that he would be looking for a part-time post which would give him a public platform.

UGB plans to separate activities after \$5.4m loss

BY MARY FRINGS IN BAHRAIN

UNITED GULF BANK (UGB), a Kuwaiti-controlled Bahrain offshore banking unit, was adversely affected in 1984 both by a poor performance by the Treasury department and by write-downs at United Gulf Investment Company (UGIC), its wholly-owned subsidiary.

The directors are seeking permission from the Bahrain Monetary Agency to separate UGB's banking and investment activities by forming a holding company with two independent operating subsidiaries.

UGB reported a consolidated loss of US\$5.4m for the year, compared with a profit of \$2.4m for 1983. Total shareholders' equity was reduced from \$251.8m to \$246.4m and assets declined from \$1.29bn to \$1.13bn.

The parent bank made a profit of \$8.1m after bad debt provisions of \$6.6m compared with \$27.9m after provisions of \$1.5m in 1983. But the investment company's previous deficit of \$3.7m worsened to \$13.4m, following a five-fold increase in provisions. Write-downs included \$7m on listed Kuwaiti securities, which absorbed the whole 1983 provision of \$2.8m, \$5.1m on unlisted Kuwaiti securities, and \$2m on U.S. venture capital investments.

Mr Mahmoud Al Nouri, the managing director, blamed a 50 per cent drop in operating profits at the bank mainly on the Treasury department, although some \$30m-worth of Kuwaiti loans had been placed on a non-accrual basis during the course of the year.

Of this sum, \$7.2m had been written off, another \$18m was currently before the Kuwait Settlements Court, and the bank was left with \$2m of well-secured debt. He said 57 per cent (\$253m) of the \$433m loan portfolio was in Gulf Co-operation Council countries, mainly Kuwait (\$126m) and Saudi Arabia (\$112m).

Turning to UGIC, Mr Al Nouri said the company had now cleaned up its balance sheet and would be concentrating on investments in the U.S. real estate and venture capital markets, and on the arrangement of debt security issues. It had just won a sole mandate for a \$50m floating-rate note issue for an Arab bank. He said more details of the proposed issue would be available within a week or so.

Rand Daily Mail deficit hits SAAN

By Jim Jones in Johannesburg

FAILURE to stem the rising loss of the Rand Daily Mail (RDM) and lower profits from other publications combined to leave South African Associated Newspapers (SAAN) with an operating loss of R8.8m (\$4.3m) in 1984. Operating profits before interest and tax were R9.6m in 1983. Turnover rose to R138.1m from R128.5m.

Mr Clive Kinsley, the managing director, has for some years forecast that the RDM's previously undisclosed but rising losses could be contained. However, Mr Kinsley now says that last year the RDM incurred a loss of R15m and that over the past 10 years its accumulated losses have been R45.5m.

Management says that the RDM cannot achieve profitability in an over-traded market. Last Friday SAAN announced that the newspaper is to cease publication on April 30.

A loss of 315 cents a share was made in 1984 against earnings of 380 cents in 1983. A final dividend has not been declared though an interim of 25 cents was paid. For 1983 a dividend total of 190 cents was paid.

Braniff still in the red but 'improving rapidly'

BY OUR NEW YORK STAFF

BRANIFF, the U.S. airline which was rescued from bankruptcy last March, lost \$86.5m in its first year since reconstruction. However, the company says that its results in recent months have improved rapidly.

The airline, which has undergone several upheavals in its battle to keep flying in the face of fierce competition from its established rivals, made a \$4.6m loss in the final quarter ended January 31. Mr Ron Ridgeway, the president, says that excluding unusual expenses, the fourth-quarter results reflected a gratifying improvement in the airline's performance and indicate that "our new long haul, unrestricted low fares operating plan is working." The company, which has shrunk in size considerably since it returned to the skies, had a 63.7 per cent load factor in the latest quarter which compares with a 45.5 per cent average load factor in the 11 months to end January.

Arbed returns to the black

ARBED, the Luxembourg steel company in which the Grand Duchy's government has a minority stake, has announced a LuxFr645m (\$9.5m) net profit for 1984, against a LuxFr2.4bn loss in 1983. The profit is the first for 10 years, our Financial Staff writes.

The company attributed the turnaround to a recovery in exports, which helped increase sales by 18 per cent to LuxFr56.7bn. Beyond this, the company has begun to feel the

Texas bank warns of profit fall

By William Hall in New York

TEXAS COMMERCE Bankshares, one of only two U.S. banks to enjoy a triple A debt rating, has announced that it expects its first quarter net income to fall by more than a third to around \$90m, primarily because of higher loan losses on its energy lending business.

Until now Texas Commerce has been largely unaffected by the problems of the U.S. energy sector, which have forced many of its rivals in Dallas and Houston to report sharply lower profits and sharply higher non-performing loans. News that the group was forecasting sharply lower profits for the first time in recent years depressed its share price by \$3 1/2 to \$36 1/2.

The group increased its average loans in 1984 by more than a fifth, but by the end of the year there were already signs that its above-average profit growth rate was slowing. Net income for 1984 rose by 3 per cent to \$183.2m, or \$5.64 per share. The group is now forecasting first-quarter earnings per share of 92 cents compared with \$1.41 per share in the same quarter last year and \$1.27 in the fourth quarter of 1984.

Texas's second biggest bank blames moderating loan growth, continuing pressures on net interest margins, and higher loan loss provisions for its profit setback. Loan loss provisions in the current quarter are expected to be about \$45m, up from \$12m in the same quarter last year and \$30m in the final quarter of 1984.

Confidence at N. Telecom

SAN FRANCISCO—Northern Telecom, a Canadian telecommunications group, expects consolidated revenues and net earnings per common share to rise 20-25 per cent in 1985, Mr Edmund Fitzgerald, president and chief executive told analysts here. "These remain our targets and I am confident of them," he said. In 1984 the company earned C\$333.9m (US\$241m) or C\$2.78 a share on revenues of C\$4.38bn. AP-DP

Trizec Corporation Ltd.

Can. \$60,000,000

11 1/2% Senior Debentures to mature March 15, 1995

CIBC Limited

Algemene Bank Nederland N.V.

Berliner Handels- und Frankfurter Bank

Citicorp Capital Markets Group

Commerzbank

Aktiengesellschaft

Crédit Lyonnais

Dresdner Bank

Aktiengesellschaft

First Interstate Limited

Genossenschaftliche Zentralbank AG - Vienna

Girozentrale und Bank der Oesterreichischen Sparkassen

Aktiengesellschaft

Hambros Bank Limited

IBJ International Limited

Manufacturers Hanover Limited

Merrill Lynch Capital Markets

Samuel Montagu & Co. Limited

Orion Royal Bank Limited

The Royal Trust Company of Canada

Société Générale

Swiss Bank Corporation International Limited

S.G. Warburg & Co. Ltd.

Wood Gundy Inc.

SWEDISH MATCH

Doors
The Door Group markets a complete range of doors, including internal and exterior doors as well as doors for public buildings. The Group is the market leader in the Nordic countries.

Kitchens
The Kitchen Group is one of Europe's leading producers of kitchen cupboards. Other products include storage cupboards, wardrobes and bathroom cabinets.

Akerlund & Rausing
Akerlund & Rausing is one of the largest packaging companies in Europe. The Group is also a market leader in fields such as disposable table products, decorative paper bags and carrier bags.

Alby
Alby produces sodium chlorate for the pulp industry and potassium chlorate for the match industry. The Alby Division has production facilities in Europe, North America and South America.

Financial highlights

	(Amounts in £ million)	1984	1983
Sales		886	766
Operating result		61	54
Result after financial items		39	38
Result after taxes		21	19
Return on capital employed, %		15.9	15.1
Earnings per share (full tax) £		2.54	2.37
Earnings per share after extraordinary items £		6.39	2.37

Swedish Match is an industrial corporation with business activities conducted through about 150 companies in more than 40 countries in all parts of the world. The Corporation employs approximately 26,000 persons in these companies. Its head office is situated in Stockholm.

Swedish Match's product areas have strong market positions. Its structure yields good profitability and rapid growth.

Business activities are concentrated on home improvement and consumer products as well as packaging.

SWEDISH MATCH

Clerical Medical

15 St. James's Square, SW1Y 4LQ. 01-930 5474

Executive Investment Pension Plan

	Bid	Offer	Change
Cash Fund	118.7	122.9	+0.4
Mixed Fund	149.2	157.1	+1.2
Fixed Interest Fund	119.7	126.1	+1.1
UK Equity Fund	163.6	172.3	+3.8
Property Fund	115.1	119.1	+0.1
Overseas Fund	170.0	179.0	+6.8
Index Linked Fund	108.4	112.9	+0.3
Stock Exchange Fund	111.3	117.2	+7.4
North American Fund	104.1	109.6	+5.3
Far East Fund	106.7	112.4	+1.6

Prices March 13 Unit dealings on Wednesday

Clerical Medical Managed Funds Limited

	Bid	Offer	Change
Cash Fund	143.8	143.8	+0.4
Mixed Fund	216.5	221.9	+1.6
Fixed Interest Fund	187.9	190.7	+1.7
UK Equity Fund	239.4	246.6	+5.3
Property Fund	129.3	135.1	+0.2
Overseas Fund	252.0	264.6	+10.1
Index Linked Fund	120.5	122.3	+0.2
Stock Exchange Fund	125.1	128.2	+0.8

Prices March 13 Unit dealings on Wednesday

Initial unit prices available on request, telephone 0272 290866

BAWAG

BANK FÜR ARBEIT UND WIRTSCHAFT A.G.

(Incorporated with limited liability in Austria)

U.S.\$40,000,000

Subordinated Floating Rate Notes due 1990

In accordance with the terms and conditions of the above-mentioned Notes notice is hereby given that the Rate of Interest has been fixed at 10 1/8% per annum and that the interest payable on the relevant Interest Payment Date, September 18, 1985, against Coupon No. 6 in respect of U.S.\$10,000 nominal of the Notes will be U.S.\$533.47.

March 18, 1985, London

By Citibank, N.A. (C.S.I. Dept.), Agent Bank

UK COMPANY NEWS

Plantation investment trust in £10m launch

By Alexander Nicol

THIS WEEK Noble Grossart, the Scottish merchant bank, is to launch the Plantation Trust Company, the only investment trust specialising in the world-wide plantation sector and will aim for capital growth.

The bank has underwritten an offer for sale, to be made through stockbrokers Kitcat & Aitken, and has already received subscriptions for all the 1.4m units on offer at £7.25 each, to raise £10.15m.

Three-quarters of the applications from institutions have been accepted, but 25 per cent of the trust will be available to the public. The 350,000 units on offer each comprise five ordinary shares, one warrant to buy an ordinary share, and £2.50 of convertible stock.

The units will be dealt together until April 22, after which there will be markets in each of the three components.

A new management group, David Hume Investment Management, has been assembled, comprising: Mr David Pinnent, chairman of Anglo American Agriculture; Mr John Campbell, a Noble Grossart director; and Mr Stephen Kershaw, former investment manager of Czarinkov Group.

They plan to invest in permanent rather than annual crops, in smaller plantation companies listed in London and elsewhere, and through unlisted investments, especially in the U.S. Plantation companies listed in the UK have outperformed equity indices, the managers say, and will continue to do so.

comment

A visit to the greenhouses or the dinner table is probably the closest that most fund managers come to researching avocados, kiwi fruit and vegetables, all listed among the crops in which the trust's activities will be "principally concentrated." So Mr Pinnent and his team are offering the out-of-the-ordinary expertise needed by institutions to justify entrusting money to other managers. New investment trusts are rare enough, new management groups even rarer, these managers have good credentials in the plantation sector, and are clearly excited by projects such as new strains of grapes in the U.S. Investments such as these will require the team to travel widely and maintain detailed knowledge of diverse markets. Most of the portfolio, however, will be spread among small plantation stocks, and the potential for substantial capital growth must rely somewhat on corporate takeovers and takeovers. The trust's shares will almost certainly slip from the 95p implied issue price to a typical discount to net asset value, but buyers of the units are compensated by a free warrant.

Stefan Wagstyl looks at Coloroll's flotation plans

U.S. holds strong prospects

ONE OF the largest wallpaper manufacturers in the UK is to be floated on the Stock Exchange, with an estimated market capitalisation of £50m.

Merchant bank Charterhouse Japhet and broker Rowe and Pimms are seeking a full listing for Coloroll by means of an offer for sale, probably next month.

Coloroll is based in Nelson, Lancashire, and employs over 800 people in the UK, the U.S. and in Australia. Its biggest business is producing wallpaper for large customers like D-I-Y chains; it also supplies ranges of co-ordinated wall papers and furnishings fabrics under brand names such as Pretty Chic and Dolly Mixtures; and it has a packaging factory, making 500,000 plastic bags a day for supermarkets and other customers.

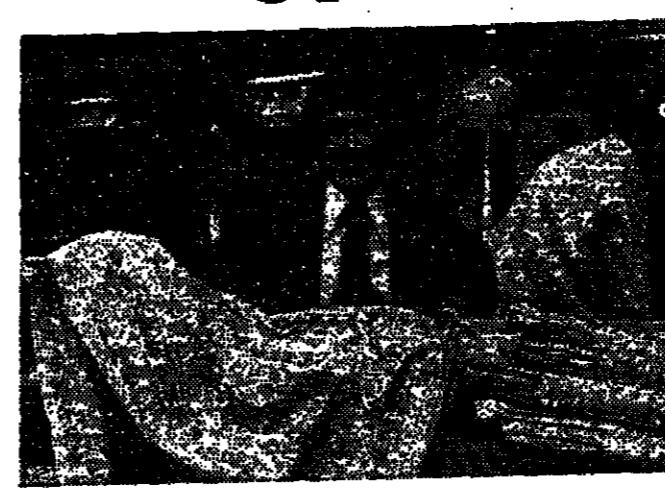
Established in 1923 to import rolls of coloured wrapping paper, Coloroll first began making wallpaper in the 1960s.

The founding Gattward family sold out in 1980-83 to a group of City institutions, which backed the appointment as managing director and subsequent chief executive of Mr John Ashcroft. He was formerly an executive with Crown Wall coverings.

Mr Ashcroft set about restructuring and expanding the business. The group, which had previously had no exports, began to expand abroad so that overseas sales now account for about 40 per cent of total turnover.

It set up a marketing and distribution company in Australia in 1983, and over the past 18 months has acquired a stake in a privately-owned U.S. wallpaper manufacturer, Wallmarts, which is to rise to 80 per cent later this year.

Sales have grown steadily from £1.7m in 1980-1 to an estimated £9.9m for the year to the end of this month, or £88m including



Mr John Ashcroft, chief executive... overseas sales account for about 40 per cent of total turnover.

the sales of Wallmarts. Profits growth has been less than smooth: it jumped to £3.7m the following year in the first flush of post-recession recovery, but fell back sharply to £2.2m in 1983-84 when Coloroll was hit by a downturn in the UK wallpaper market, which forced several competitors to cut back their capacity heavily.

Sales and profits in the UK recovered strongly the next year, but the group was held back to £2.1m pre-tax, due the £800,000 cost of starting up in Australia.

Consolidation of the U.S. company's profits will add about £1.7m to profits making a group total of more than £5m for the year.

Thirty-six-year-old Mr Ashcroft, who has been insured by his backers in a £5m key man policy, says the first stage in the company's development has been to build up wallpaper sales to D-I-Y chains.

Then Coloroll expanded its ranges of co-ordinated wallcoverings and fabrics (which are made to its designs by outside manufacturers). Mr Ashcroft believes this business has much further to go, for example, by setting up concession shops within large High Street stores.

The third stage of growth has been the push overseas. Mr Ashcroft sees very strong prospects in the U.S. in particular where he says the Americans are turning away from their traditional fabric-backed wallcoverings to English-style wallpapers.

The U.S. move is one reason for the company's intended flotation — the funds raised will help clear the £10m or so debts incurred in buying a controlling stake in Wallmarts and to allow further growth in North America.

Sturla to go into liquidation

By Alexander Nicol

Sturla Holdings, a leasing and hire purchase company which had its shares suspended two years ago, yesterday gave up the fight for survival, having been sold to a UK investment consortium for £10m (£9.2m).

The purchaser of Sturla's 37 per cent stake in American Property Group is a consortium organised by Stanecastle Assets, the Edinburgh-based managers of Edinburgh Financial Trust (formerly Yorkshire and Lancashire Investment Trust).

Stanecastle said that Espley's recent problems had enabled the consortium to acquire the shareholding on favourable terms.

Under the chairmanship of Mr Ronald Atkin, who replaced Mr Ronald Shuck last September, the group has embarked on a major UK and overseas asset disposal programme to reduce heavy debts. Mr Shuck was subsequently sacked as managing director and the group has started legal proceedings against him involving earlier land deals in Scotland.

In the latest sale, the consortium has also taken an option on Espley's outstanding 4 per

Espley sells American Property stake for £9m

BY MICHAEL CASSELL, PROPERTY CORRESPONDENT

NORTH AMERICAN property interests of Espley Trust, which is fighting for survival, have been sold to a UK investment consortium for £10m (£9.2m).

The purchaser of Espley's 37 per cent stake in American Property Group is a consortium organised by Stanecastle Assets, the Edinburgh-based managers of Edinburgh Financial Trust (formerly Yorkshire and Lancashire Investment Trust).

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Hepworth Ceramic in £14m sale

Hepworth Ceramic Holdings, the clay pipes and refractories subsidiary acquired in 1977, is being sold for £14m.

Western, based in Tacoma, Washington, State, has a total of 11 manufacturing plants, with turnover of \$70m.

The sale proceeds and the working capital released by the sale will be used by Hepworth to expand in the U.S. and elsewhere.

Banco de Bilbao plans UK listing

Banco de Bilbao, the fourth largest bank in Spain, is planning to get a listing on the UK Stock Exchange in the first half of 1985, the first Spanish company to apply.

Bill Samuel, meanwhile, has arranged a placing of £13.25m shares, equal to 1.6 per cent of Bilbao's equity, raising the equivalent of £5.6m. The shares are represented by investor depositary receipts in which Quilter Goodson, the stockbrokers, have agreed to make a market on the basis of matched deals.

The Charities Official Investment Fund

Annual Report 1984

- Income Share value rose by 22.3%.
- Dividend increased by 12.1%.
- Accumulation Share value rose by 24.1%.

Trustees extended their services to charities by introducing The Charities Deposit Fund on 1st March 1985, offering an initial daily interest rate of 13.8% p.a. (APR 14.5%).

To: The Charities Official Investment Fund, 77 London Wall, London EC2N 1DB (01-588 1815)

Please send: ☐ COIF 1984 Report ☐ Charities Deposit Fund Leaflet

Name _____ Address _____

Agent Bank First Interstate Limited

19th March 1985

RECENT ISSUES

EQUITIES

Issue price	Amount paid	1984/85	Stock	Change	+ or -	Div.	Yield	P/E Ratio
188	188	188	Admission Page 5p	188	188	188	188	188
189	189	189	Admission Page 5p	189	189	189	189	189
190	190	190	Admission Page 5p	190	190	190	190	190
191	191	191	Admission Page 5p	191	191	191	191	191
192	192	192	Admission Page 5p	192	192	192	192	192
193	193	193	Admission Page 5p	193	193	193	193	193
194	194	194	Admission Page 5p	194	194	194	194	194
195	195	195	Admission Page 5p	195	195	195	195	195
196	196	196	Admission Page 5p	196	196	196	196	196
197	197	197	Admission Page 5p	197	197	197	197	197
198	198	198	Admission Page 5p	198	198	198	198	198
199	199	199	Admission Page 5p	199	199	199	199	199
200	200	200	Admission Page 5p	200	200	200	200	200

FIXED INTEREST STOCKS

Issue price	Amount paid	1984/85	Stock	Change	+ or -	Div.	Yield	P/E Ratio
188	188	188	Admission Page 5p	188	188	188	188	188
189	189	189	Admission Page 5p	189	189	189	189	189
190	190	190	Admission Page 5p	190	190	190	190	190
191	191	191	Admission Page 5p	191	191	191	191	191
192	192	192	Admission Page 5p	192	192	192	192	192
193	193	193	Admission Page 5p	193	193	193	193	193
194	194	194	Admission Page 5p	194	194	194	194	194
195	195	195	Admission Page 5p	195	195	195	195	195
196	196	196	Admission Page 5p	196	196	196	196	196
197	197	197	Admission Page 5p	197	197	197	197	197
198	198	198	Admission Page 5p	198	198	198	198	198
199	199	199	Admission Page 5p	199	199	199	199	199
200	200	200	Admission Page 5p	200	200	200	200	200

RIGHTS OFFERS

Issue price	Amount paid	1984/85	Stock	Change	+ or -	Div.	Yield	P/E Ratio
188	188	188	Admission Page 5p	188	188	188	188	188
189	189	189	Admission Page 5p	189	189	189	189	189
190	190	190	Admission Page 5p	190	190	190	190	190
191	191	191	Admission Page 5p	191	191	191	191	191
192	192	192	Admission Page 5p	192	192	192	192	192
193	193	193	Admission Page 5p	193	193	193	193	193
194	194	194	Admission Page 5p	194	194	194	194	194
195	195	195	Admission Page 5p	195	195	195	195	195
196	196	196	Admission Page 5p	196	196	196	196	196
197	197	197	Admission Page 5p	197	197	197	197	197
198	198	198	Admission Page 5p	198	198	198	198	198
199	199	199	Admission Page 5p	199	199	199	199	199
200	200	200	Admission Page 5p	200	200	200	200	200

Reimbursement data usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. c Dividend rate paid or payable on part of capital, cover based on dividend on full capital. d Assumed dividend, and yield based on prospectus or other official estimates for 1985. e Dividend and yield based on prospectus or other official estimates for 1984. f Gross, 2 Pence unless otherwise indicated. g Issued by under 100 holders of ordinary shares. h Rights. i Issued by under 100 holders of ordinary shares. j Issued by under 100 holders of ordinary shares. k Issued by under 100 holders of ordinary shares. l Issued by under 100 holders of ordinary shares. m Issued by under 100 holders of ordinary shares. n Issued by under 100 holders of ordinary shares. o Issued by under 100 holders of ordinary shares. p Issued by under 100 holders of ordinary shares. q Issued by under 100 holders of ordinary shares. r Issued by under 100 holders of ordinary shares. s Issued by under 100 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THE PLANTATION TRUST COMPANY plc

(Registered in England under the Companies Act 1948 to 1981 No. 1833940)

Offer for Sale

by

Noble Grossart Limited

in conjunction with

Kitcat & Aitken

of

1,400,000 units

(each unit comprising five ordinary shares, one warrant and £2.50 nominal of convertible stock) at £7.25 per unit payable in full on application.

The application list for the units now offered for sale will open at 10.00 a.m. on Thursday, 21st March, 1985 and may be closed at any time thereafter. The procedure for application and the application form are set out at the end of this document.

Authorised
£4,000,000

SHARE CAPITAL

in ordinary shares of 25p each

Issued and
now being issued
£1,750,000

LOAN CAPITAL

£3,500,000 nominal of 7½ per cent. convertible unsecured loan stock 2000

The Company has created warrants carrying rights, exercisable at 100p per share during the period of 28 days prior to 31st August in any of the years 1986 to 1988, to subscribe for a total of 1,400,000 further ordinary shares. Holders of convertible stock will be entitled to convert such stock into ordinary shares at the rate of one ordinary share for every 105p nominal of convertible stock. The conversion rights may be exercised during the month of August in any of the years 1988 to 2000. The redemption date will be 30th September, 2000. The offer for sale has been fully underwritten by Noble Grossart Limited. The directors are aware of intended applications from sub-underwriters for all of the units now being offered for sale. Noble Grossart Limited has undertaken to accept such applications in respect of 1,050,000 units, representing 75 per cent. of the units offered for sale.

DIRECTORS, SECRETARY AND ADVISERS

Directors

Edwin Hadsley-Chaplin (Chairman)
Tubs Hill House, London Road, Sevenoaks, Kent TN13 1DG
Derek Alfred Howard Baer
1 Laurence Pountney Hill, London EC4R 0BA
Alastair John Wilson Campbell
17 Lincoln's Inn Fields, London WC2A 3ED
John Stephen Kershaw
8 Crescent, London EC3N 2LY
David Hume Pincus
Old Chellows, Crowhurst, Nr. Lingfield, Surrey RH7 6LU

Secretary and Registered Office

Richard Blair Drummond, F.C.A.
Empire House, 123 Kennington Road, London SE11 6SF

Investment Manager

David Hume Investment Management Limited
8 Crescent, London EC3N 2LY

Issuing House

Noble Grossart Limited
48 Queen Street, Edinburgh EH2 3NR
and
17 Lincoln's Inn Fields, London WC2A 3ED

Stockbrokers to the Company and to the Offer

Kitcat & Aitken
The Stock Exchange, London EC2N 1HB

Auditors and Reporting Accountants

Deloitte Haskins & Sells
Chartered Accountants
128 Queen Victoria Street, London EC4P 4JX

Solicitors to the Company and to the Offer

Stephenson Harwood
Saddlers' Hall, Gutter Lane, Cheapside, London EC2V 6BS

Bankers

Barclays Bank PLC
P.O. Box 69, 114 Fenchurch Street, London EC3P 3HY

Receiving Bankers

Barclays Bank PLC, New Issues Department
P.O. Box 123, Fleetway House, 25 Farringdon Street, London EC4A 4HD

Registrars and Transfer Office

Barclays Bank PLC
Radbrooke Hall, Knutsford, Cheshire WA16 9EU

DEFINITIONS

In this document save as the context otherwise requires:-

"Company" means The Plantation Trust Company plc
"directors" or "board" means the board of directors of the Company
"ordinary shares" means ordinary shares of 25p each in the Company
"convertible stock" means the £3,500,000 nominal of 7½ per cent. convertible unsecured loan stock 2000 of the Company, the particulars of which are set out below
"warrants" means the 1,400,000 warrants, each to subscribe for one ordinary share, the particulars of which are set out below
"unit" means a unit comprising five ordinary shares, one warrant and £2.50 nominal of convertible stock
"David Hume Investment Management Limited" means Inscope Limited (in the course of changing its name to David Hume Investment Management Limited)

INTRODUCTION

The Company is an investment trust created to exploit investment opportunities in the plantation sector worldwide. It is unique in that no other United Kingdom listed investment trust now specialises solely in that sector. The Company will employ the considerable experience and expertise of members of the board in the plantation industry in pursuit of capital appreciation for its shareholders. The directors intend to concentrate on permanent crop investments.

The proceeds of this offer for sale, which has been fully underwritten by Noble Grossart Limited, will amount to approximately £9.7 million, after expenses.

The directors are aware of intended applications from sub-underwriters for all of the units now being offered for sale. Noble Grossart Limited has undertaken to accept such applications in respect of 1,050,000 units representing 75 per cent. of the units offered for sale.

THE PLANTATION SECTOR

Since the early 1970s the average stock market performance of the shares of plantation companies listed in the United Kingdom has substantially outperformed the principal United Kingdom equity indices. Specific listed plantation investments both in the United Kingdom and overseas markets have produced returns well in excess of that average. The directors believe that above average performance will be maintained owing to three principal factors: increasing operating returns; re-rating as a result of improved investor appreciation of companies in the sector; and corporate activity, including mergers, take-overs and acquisitions of strategic shareholdings.

Operating Returns

Factors contributing to increases in operating returns include the following:-

Improved productivity - Crop yields have shown substantial improvements as a result of the use of better planting material, fertilisers, pesticides and herbicides and through general improvements in managerial and agricultural practices. Net income growth has been further enhanced through cost savings arising from economies of scale and mechanisation. Biogenetic research has already begun to have an impact on annual crops. The directors believe that major advances in this field within the permanent crop sector are poised. In the case of some crops, to produce dramatic improvements in yield potential and disease resistance, as compared with improvements which have in the past been achieved using traditional methods.

Demand Factors - World population growth and rising standards of living increase demand for plantation products including crops used for food, feed and fibre. Despite yield improvements, even if current living standards are merely to be maintained, substantial increases in total land areas would be required to be brought into production. On the basis of current production costs and commodity prices the profitability on much of this new land would be marginal. However, improvements in yield potential and disease resistance, as compared with improvements which have in the past been achieved using traditional methods.

Re-rating

The ability of investors to assess the opportunities available in the plantation sector is hampered by the wide range of different companies and crops, and the difficulty in obtaining and assimilating the relevant information given the limited amount of investment research on the sector. As a result many of the listed shares in this sector have in the past been undervalued. However, improvements in investor appreciation and knowledge of individual companies and crops have frequently resulted in significant re-assessments of value.

Corporate activity

The process of re-rating has been assisted in certain cases by plantation companies and groups of other investors building up strategic stakes to serve as springboards for effecting changes in ownership and management. Such moves have tended to alter perspectives of value not only of the target company but also of other companies with related activities.

Permanent crop sector

The term permanent crop describes any species which reaches maturity over a period of years and yields for a number of years thereafter. Annual crops are planted and harvested in the same crop year. Permanent crops traditionally provide a higher return than annual crops. While annual crops typically yield less than 5 per cent. on capital employed, permanent crops are able, depending on crop, commodity prices, cyclical patterns and growing conditions, to achieve yields in excess of 70 per cent. of supply than for annual crops. While this can lead to greater volatility in prices than for annual crops, where planting levels can be adjusted to reflect short-term supply and demand, the successful selection of permanent crops fulfilling the optimum supply and demand criteria can offer the opportunity for returns which are substantially better than average.

Scale of sector

The aggregate market capitalisation of United Kingdom and overseas registered plantation companies in the permanent crop sector listed on worldwide stock exchanges is in excess of £5,000 million. This does not include the major plantation interests of many overseas traders. There are substantial plantation industries in the United States, Australia and other countries in the Pacific Area, as well as in certain countries in Africa, Europe and South America. For example, there are over 200 permanent crops grown in California alone, of which the principal crops - grapes, citrus and nuts - cover some 1.4 million acres, currently valued at approximately US\$10,000 million.

INVESTMENT POLICY

The principal objective of the Company is to achieve capital growth.

The directors intend that the Company will principally invest in equity securities listed on the United Kingdom and overseas stock markets. In addition a proportion of available funds will be invested in unlisted securities and indirectly in stakes in plantation ventures. The board intends to invest a significant part of these funds in the United States, where the opportunities for listed plantation investments are limited. It also intends to use its expertise, where suitable opportunities arise, to build up strategic stakes.

Examples of crops and geographical areas in which the board's investment activities will be principally concentrated are set out below:-

Crop	Producing countries
Avocados	United States
Citrus	United States, Australia
Cocoa	Malaysia, Indonesia
Coconuts	Malaysia, Indonesia, Papua New Guinea, Central America
Coffee	Kenya, Indonesia
Cotton	Australia
Dates	United States
Grapes	United States, Australia
(table, wine, raisin)	United States, Australia, New Zealand
Kiwi fruit	United States, Australia, Central Africa
Nuts	(almonds, macadamias, pecans, pistachios, walnuts)
Palm oil	Malaysia, Indonesia, Papua New Guinea
Pineapples	United States
Rubber	Malaysia, Indonesia, Papua New Guinea
Stone fruit	United States
(plums, peaches, nectarines, apricots)	Bangladesh, Malawi, Kenya, India, Indonesia
Tea	

Within this substantial overall spectrum of investment there are, in the board's view, a range of above average individual opportunities, both in large companies and to a greater extent in smaller companies or in joint venture opportunities, which have significant investment potential.

The board intends, subject to suitable opportunities being available and to market conditions and interest rates, to employ a degree of gearing in addition to the convertible stock. The trust deed to constitute the convertible stock will limit the ability of the Company and any subsidiaries to borrow by reference to a multiple of one and a half times adjusted capital and reserves as shown by its latest audited accounts. The trust deed will, pending the preparation of the audited accounts of the Company for its financial period ending on 31st March, 1986, limit the Company's power to borrow £7 million in addition to the convertible stock. It is not, however, the Company's intention to utilise initially the full borrowing powers.

Although it is proposed to invest the Company's funds fully in shares or other securities, the directors may in appropriate circumstances invest *inter alia* in bonds, deposits or short term money market instruments in any country.

In accordance with the requirements of the Council of The Stock Exchange, it will be part of the investment policy of the Company:-

- (1) that not more than 10 per cent. of its assets (before deducting borrowed money) may be lent to, or invested in the securities of, any one company (other than holdings in another investment trust which has been approved by the Inland Revenue or which would qualify for such approval but for the fact that it is not yet listed) including loans to or shares in its own subsidiaries;
- (2) that not more than 25 per cent. of its assets (before deducting borrowed money) may be invested in the aggregate of:-
 - (i) holdings in which the interest of the Company and any subsidiaries amounts to 20 per cent. or more of the aggregate of the equity capital (including any capital having an element of equity) of any one listed company (other than another investment trust which has been approved by the Inland Revenue or which would qualify for such approval but for the fact that it is not yet listed); and
 - (ii) securities not listed on any recognised stock exchange; and
- (3) that its income will be derived wholly or mainly from shares or other securities.

The investment policy described in this section will, in accordance with Stock Exchange requirements, be adhered to for at least three years following listing, and the policy of investment in the plantation sector will not be altered at any time without the consent of shareholders.

In addition, in order to qualify as an approved investment trust within the meaning of Section 359 of the Income and Corporation Taxes Act 1970 (as amended) no holding in any one company (other than a company which is for the time being an investment trust) may represent more than 15 per cent. by value of the Company's investments at the time the investment is acquired.

DIRECTORS

Members of the board have extensive direct experience of investment in plantation shares and, of equal importance, in the direct management of substantial plantation companies owning and operating plantations in many parts of the world. The personal connections of the directors extend to a large number of international plantation and agricultural groups of potential investment interest. They also extend into the financial sector, in particular in North America, which is frequently the source of both finance for, and introductions to, transactions.

A substantial amount of time is spent by board members travelling overseas maintaining contact with the participants in the international agricultural sector whether they be operators, investors, or financiers.

Edwin Hadsley-Chaplin (Chairman), aged 62, is chairman of Rowe Evans Investments PLC and a director of a number of other plantation companies listed on the London Stock Exchange, including Beradin Holdings PLC and Bertam Holdings PLC, and of Colly Farms Cotton Limited, an Australian listed cotton producer. He has been actively involved in the international plantation industry since 1947 and is a former chairman of the Rubber Growers Association.

Derek Baer, aged 63, is the chairman of The Foreign and Colonial Investment Trust PLC and a director of a number of listed companies including The Stockholders Investment Trust PLC and Temple Bar Investment Trust PLC. He is also on the London board of The Colonial Mutual Life Assurance Society Limited and, since 1956, he has been a director of John Goveit & Company Limited.

John Campbell, aged 38, is a director of Noble Grossart Limited, deputy chairman of Anglo American Agriculture PLC, a United Kingdom public company specialising in the United States permanent crop sector, and a director of Beradin Holdings PLC and Colly Farms Cotton Limited. Over the last twelve years he has been extensively involved with the plantation sector, both in an advisory capacity as a merchant banker and from 1979 to 1982 as managing director of McLeod Russell PLC.

Stephen Kershaw, aged 53, joined the investment department of Caramkow Group Limited in 1968 and held the position of investment manager from 1982 to 1984. He specialised in the management of plantation and commodity shares and also participated in the management of the Ebor Commodity Share Unit Trust. He was a director of Bandanga Holdings Limited, a listed Malawi tea producer. He has contributed articles on commodity based shares to the Investors Chronicle and other publications.

David Pincus, aged 41, is chairman and managing director of Anglo American Agriculture PLC. He was chairman and managing director of Bandanga Holdings Limited from 1973 to 1977 and has been a director of a number of listed companies in the plantation and investment trust sectors, including Catei Trust Limited, Central Province Ceylon Tea Holdings Limited and Eastern Produce (Holdings) Limited.

INVESTMENT MANAGEMENT

The directors will be responsible for the determination of the Company's investment policy and will have overall control over the Company's activities. The Company has entered into an investment management agreement with a newly incorporated investment management company, David Hume Investment Management Limited, under which the day to day management of the Company's investments will be carried out. A summary of the terms of that agreement, which is conditional upon the management company obtaining appropriate licences, is set out in paragraph 5 under "General information" below.

David Hume Investment Management Limited is to be owned as to 50 per cent. by the Company, as to 20 per cent. by David Hume Securities Limited (a company controlled by David Pincus), as to 10 per cent. by Stephen Kershaw, as to 10 per cent. by John Campbell and as to 10 per cent. by Noble Grossart Limited. The directors of David Hume Investment Management Limited are David Pincus, John Campbell and Stephen Kershaw.

Whilst the agreement remains conditional, the day to day management of the investments of the Company will be carried out by Stephen Kershaw. An agreement has been entered into by Stephen Kershaw, the Company and David Hume Investment Management Limited, pursuant to which Stephen Kershaw will initially provide services to the Company and, on the investment management agreement becoming unconditional, to David Hume Investment Management Limited. Details of this agreement appear in paragraph 4 under "General information" below.

The Company has granted options to Edwin Hadsley-Chaplin, Derek Baer, John Campbell, Stephen Kershaw and David Pincus to subscribe for a total of 525,000 ordinary shares at 100p per share exercisable between 1987 and 1992. The ordinary shares the subject of these options will equal 4.28 per cent. of the issued share capital of the Company following this offer for sale, assuming the full conversion of the convertible stock and the exercise of all the warrants.

David Hume Investment Management Limited may in the future enter into further investment management contracts with third parties but none are currently envisaged.

DIVIDEND POLICY

In order to qualify as an investment trust under the Income and Corporation Taxes Act 1970 (as amended) the Company must retain in respect of any accounting period more than 15 per cent. of the income it derives from shares and securities. As stated above, however, the principal objective of the Company is the achievement of capital appreciation. Allowing for income required to cover interest on the convertible stock and other borrowings, dividend payments by the Company are likely to be modest.

Each annual dividend will be in the form of a single payment which is expected to be made in July. Accordingly, the first dividend is expected to be paid in July 1986 in respect of the period ending 31st March, 1986. The Company's articles of association provide that profits from the sale of investments on other capital assets will not be available for distribution as dividends.

DETAILS OF THE OFFER

A total of 1,400,000 units are being issued at the offer for sale price of £7.25 per unit. Each unit comprises five ordinary shares (with one warrant) at £4.75 and £2.50 nominal of convertible stock at par.

Application has been made to the Council of The Stock Exchange for admission to the Official List of the ordinary shares of the Company, the warrants and the convertible stock the subject of this offer for sale.

Ordinary shares

The amount of 95p per ordinary share payable on application represents 25p in respect of the nominal value, the whole of the premium of £7.88625p and the difference between the subscription price and the offer for sale price under the offer for sale agreement, particulars of which are set out in paragraph 5 of "General information" below. The ordinary shares now offered will rank for all dividends and other distributions hereafter declared, paid or made on the ordinary share capital of the Company.

Warrants

Each warrant will confer the right to subscribe for one ordinary share. The warrants will be exercisable during the period 28 days prior to 31st August in any of the years 1986 to 1995 inclusive at a subscription price of 100p per share (subject to the usual adjustments). Further details are set out under "Particulars of the warrants" below.

Convertible stock

The convertible stock will be constituted by a trust deed in favour of The Law Debenture Trust Corporation p.l.c., whose head office is situated at Estates House, 66 Gresham Street, London EC2V 7HX, as trustee for the holders of the convertible stock. Interest will be paid on the convertible stock at the rate of 7½ per cent. per annum (less tax) in two equal half-yearly instalments in arrears on 31st March and 30th September in each year, except that the first payment (which will be made on 30th September, 1985) will be of £390.4p (less tax) per £100 nominal of convertible stock.

Subject as provided in the trust deed, the convertible stock will be convertible into ordinary shares at the rate of one ordinary share for every 105p nominal of convertible stock. The conversion rights may be exercised during the month of August in any of the years 1988 to 2000, both inclusive, and any convertible stock outstanding at 30th September, 2000 will be redeemed at par on that date, together with accrued interest. Particulars of the convertible stock are set out below.

TAXATION

The directors intend to conduct the affairs of the Company in such a way that the Company satisfies the conditions for approval as an investment trust laid down in Section 359 of the Income and Corporation Taxes Act 1970 (as amended) and will apply to the Inland Revenue for such approval. Such approval is granted retrospectively and in respect of each accounting period for which approval is granted, the Company will, as a result of the provisions of the Finance Act 1980, be exempt from corporation tax on chargeable gains.

Investors are advised to consult their professional advisers on the possible tax consequences of their acquiring, holding or disposing of ordinary shares, warrants and convertible stock. However, set out in paragraph 6 under "General information" below are some comments which are intended to assist investors with regard to taxation, based on current law and practice.

ACCOUNTANTS' REPORT

The following is the text of a report received by the directors from Deloitte Haskins & Sells, Chartered Accountants, the auditors of the Company:

128 Queen Victoria Street
London EC4P 4JX
13th March, 1985

The Directors
The Plantation Trust Company plc,
Empire House,
123 Kennington Road,
London SE11 6SF

Dear Sirs,

The Plantation Trust Company plc was incorporated on 8th March, 1985. The Company has not commenced business and, accordingly, no accounts have been made up and no dividends have been declared or paid.

Yours faithfully,
Deloitte Haskins & Sells
Chartered Accountants

APPLICATION PROCEDURE AND DEALINGS

The application procedure in respect of the 1,400,000 units now being offered for sale and a detachable application form appear at the end of this document. Application forms, each with the appropriate remittance, should be lodged not later than 10.00 a.m. on Thursday, 21st March, 1985. It is expected that fully paid renounceable letters of acceptance will be posted on Monday, 25th March, 1985, that dealings in the units will commence on Tuesday, 26th March, 1985 and that dealings in the ordinary shares, warrants and convertible stock separately will commence on Thursday, 25th April, 1985.

PARTICULARS OF THE WARRANTS

The warrants will be issued subject to the following terms and conditions:-
1 (A) A registered holder ("a holder") for the time being of a warrant shall have rights ("subscription rights") to subscribe in cash on each "subscription date", being 31st August in any of the years 1986 to 1995 inclusive (or, if later, the date in any such year 31 days after the date on which copies of the audited accounts of the Company for that year are made available to holders), for all or any of the number of ordinary shares specified in the warrant at the price of 100p per ordinary share ("the subscription price"), payable in full on subscription. The number and/or nominal value of shares to be subscribed and the subscription price will be subject to adjustment as provided in paragraph 2 below.

(B) In order to exercise the subscription rights in whole or in part, the holder of a warrant must lodge it at the office of the registrars of the Company on or within 28 days prior to the relevant subscription date having completed the notice of subscription thereon (and, if desired, the form of nomination contained on the reverse of the warrant), accompanied by a remittance for the subscription price of the ordinary shares in respect of which the subscription rights are exercised. Once lodged, a notice of subscription shall be irrevocable save with the consent of the directors. Compliance must also be made with any statutory requirements for the time being applicable. The subscription rights will not be exercisable in respect of a fraction of an ordinary share.

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NOTICE OF REDEMPTION

To the holder of notes payable in United States Dollars of the issue designated SANDVIK AKTIEBOLAG US\$30,000,000—sinking fund debentures 9 1/2% due April 15, 1986 ninth redemption instalment of US\$4,500,000—due April 15, 1985

Public notice is hereby given that SANDVIK AKTIEBOLAG intends to and will redeem for mandatory redemption purposes on April 15, 1985 pursuant to the provisions of section 4 of the notes an amount of US\$4,500,000, of which US\$1,299,000 has been repurchased by the Company in the open market, the balance US\$3,201,000 has been drawn by lot.

5,201 bonds of US\$1,000—nominal value are called on April 15, 1985 at 100% of principal amount plus accrued interest payable at US\$95.00 per coupon.

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THE WEEK IN THE COURTS

Acting as umpire over the right to play rugby

FEW THINGS matter more in a land of Anglo-Saxon attitudes than ball games. It comes, therefore, as no surprise to find that litigation about the right to play a game of rugby football on a public recreation ground raises a point of fundamental importance and a conflict between two principles of a democratic society. But does it?

The dispute which gave rise to that remark is between the Leicester City Council and some members of the Leicester City Rugby Football Club. On August 21, 1984 the council suspended for 12 months the club's licence to use the city's Welford Road recreation ground. Six of the club's members decided to test the legality of the ban. On September 27, 1984 Mr Justice Forbes rejected their claim that the ban was unlawful.

Knockout blow

Last week, on March 14, in *Wheeler and Others v Leicester City Council* (Times Law Report March 15, 1985) the Court of Appeal upheld the judge's ruling, by a majority of two to one.

The matter does not end there. The six members have been granted leave to appeal to the House of Lords. Time alone will tell whether on that occasion they will suffer a knockout blow or will score a winning try.

What made the council decide

to stop the club's games of rugby on the public recreation ground?

The background to the ban was the council's firm opposition to sporting contacts with South Africa so long as the policies and practices of apartheid prevail there. Among the citizens of Leicester are members of ethnic communities to whom apartheid is abhorrent.

Three of the club's members had taken part in a tour of South Africa under the auspices of the English Rugby Football Union.

The council requested the club to urge the union and the members to cancel the tour. The club replied that despite its hatred of apartheid, it would neither condemn the tour nor discourage its members from taking part in it. The club's attitude was that each individual member had a personal choice where and when to play rugby.

These are issues which it is appropriate to consider and discuss this week, a week in which local authorities up and down the country intend to devote to action against apartheid. But to what extent are court proceedings a suitable method of examining and debating such complicated and controversial matters?

In this country, a judge acts as umpire in a contest conducted on each of the opposing sides by advocates. He has to declare and find the relevant facts on the basis of such evidence as the parties to the

dispute are able to put before him. He has to apply established legal principles to those facts.

Neither the legal system nor the legal framework of rules and remedies nor the legal cast of mind of judges, counsel and solicitors are designed for the cut and thrust of sophisticated political inquiry, polemics and debate.

Discretion

The issues which were under consideration in the Queen's Bench Divisional Court and the Court of Appeal were different. Had the Leicester council legal power as a local authority to ban the club from using a public recreation ground?

If the council had the power, did it with a discretion conforming with legal rules for the exercise of a discretion? In the exercise of its discretion, did it take into account all relevant matters, or did it consider any irrelevant matter? Was the council's decision to ban the club an exercise of discretion which no reasonable council considering in the proper manner all relevant factors would ever have supported?

The council rested its case on the provisions of section 71 of the Race Relations Act 1976. The section states that, "It shall be the duty of every local authority to make appropriate arrangements with a view to securing that their various

functions are carried out with due regard to the need—(a) to eliminate unlawful racial discrimination; and (b) to promote equality of opportunity, and good relations, between persons of different racial groups."

One of the council's functions was to manage the Welford Road Recreation Ground. The club was an important local institution. A firm stand on relations with South Africa was likely to encourage rather than deter good relations among the club's different ethnic groups. The club's refusal to discourage its members from taking part in a South African tour was likely to weaken rather than to strengthen their relations. The argument for the council was that a temporary ban on the club from using the public recreation ground was a lawful step in support of a reasonable policy.

The minority opinion in the Court of Appeal, expressed by Lord Justice Browne-Wilkinson, was that the ban was unlawful. In imposing it, the council took into account legally irrelevant matters. A general power conferred on an elected public body to administer public property or money could not be used lawfully to punish those who declined to support that public body's current views on some contentious topic. If the council's decision was lawful, it created a dangerous risk to such fundamental freedoms as the right to freedom of speech and conscience enjoyed by every

individual in a democratic society.

Section 71 of the Race Relations Act 1971 contained no express words or provisions restricting or destroying those freedoms.

The Court of Appeal's majority opinion, expressed by Lord Justice Ackner and Sir George Waller, was that, in the perspective of the merits of the two different points of view concerning the value of cutting all sporting links with South Africa, the council could not be regarded as acting unreasonably or perversely in imposing the ban. The ban was within the council's legal powers.

Ban on club

Neither the majority nor the minority opinion seems entirely satisfactory. A ban against a private club on the use of a municipal sports-ground is arguably neither an infringement of any fundamental freedom of speech and conscience nor an appropriate arrangement to promote good relations between persons of different racial groups living in the particular municipality. This may be a result of the dispute taking a different form during court proceedings than beforehand, because the previous basis is not susceptible to court proceedings in the present state of the legal system. If this is an accurate diagnosis of the situation, then appropriate measures should be taken to remedy it.

Justinian

HIGGS AND HILL NORTHERN has started work on its £12.2m contract with the North West Regional Health Authority as part of the £18m redevelopment scheme for Oldham General Hospital, Greater Manchester. The development comprises four three-storey blocks providing 300 new beds, seven operating theatres and other new patient services. Ground floor facilities include new out-patient, X-ray, pharmacy, occupational therapy and accident emergency services.

Phase I of the redevelopment is due for completion in early 1988. The new blocks at Oldham are designed to interlink with future phases of the development and pitched roofs of natural slate will be used to blend with existing buildings.

Work on the M1 heads contracts, together worth nearly £10m, has been awarded to TARMAC CONSTRUCTION. It will reconstruct the southbound carriageway of the M1, between junctions 16

BUILDING CONTRACTS

£24m Norwegian oil plant order

Statol has signed a contract with the Norwegian company ASTRUP HOEYER for construction of six underground storage caverns for the new crude oil terminal at Mongstad, Norway. The caverns will be tunnelled west of the refinery with a total volume of 1.5m cu metres. In connection with the upgrading and expansion of the refinery, it will also be necessary to tunnel four storage caverns with a combined volume of 40,000 cu metres. The contract is worth around Nkr 205m (£24m). The crude oil terminal at

Mongstad is built in parallel with the upgrading and expansion of the refinery. Except for access pipelines and a metering station, most of the construction is a long way underground. The caverns are either 330 or 580 metres long with a height of 33 metres and a width of 18 metres. The caverns are all below sea level, about 50 metres underground. The main reason for the terminal is to gain greater market flexibility in the sale of offshore loaded crude oil from Statfjord and Gullfaks fields. The terminal is expected to be in operation early in 1988.

£18m work for Willett

WILLET has been awarded a series of construction contracts worth £18m. At the Whitbread, Framlingham Brewery in Faversham, Kent, a fermentation vessel area with access corridors and walkways is being created and at the Tank Farm Brewery in Cheltenham, the first phase of an extension and refurbishment programme are underway. These are in addition to a process and bottling facility in Sheffield.

A single-storey warehouse with two storeys of internal offices at Clitham Business Park for Grover Developments, is worth £882,000, for completion in 35 weeks. Finally, a £2m project is to begin shortly for the City of Westminster. Parsons House in the Edgware Road is to undergo extensive repairs and refurbishment work. Aluminium cladding will replace existing concrete and brickwork, new windows will be installed and the roof will be renewed. Willett is a member of Troilope and Colls Holdings UK building division of Trafalgar House.

and 18 in Northamptonshire, under a £26m contract from Northampton County Council. Works start shortly and is scheduled for completion in five months. Other projects include refurbishing part of Eddrian House, Newcastle-upon-Tyne, for British Telecom (£1.1m); foundations work and ancillary offices at Kerton Cement Bagging Works, Kettering for Falmer Engineering (£205,000); and two contracts, together worth £292,000, for foundation work at South Killingholme, South Humberside, for Conoco. On Mersey side three contracts have been awarded to Tarmac Cubits, part of Tarmac Construction. The largest, valued at £1.1m, is for foundations and ancillary works at Bibby Edible Oils, Bootle, for Wimpey Engineering. The others are for structural alterations and refurbishment of two shops at Crosby, for J. Sainsbury (£228,000); and alterations and refurbishment of offices at Fort Sunlight, for Lever Brothers (£200,000).

Work on the M1 heads contracts, together worth nearly £10m, has been awarded to TARMAC CONSTRUCTION. It will reconstruct the southbound carriageway of the M1, between junctions 16

Bryant construction
New Building
Refurbishment
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£18m projects for John Laing Group

Two contracts, together worth more than £18m, have been won by the JOHN LAING GROUP. The Midland region of the company is to build a £14.5m surgical block at Stoke City General Hospital. This will include 367 beds, eight operating theatres, six X-ray rooms and a children's day care unit. It will be built adjacent to the existing hospital in Hilton Road, Newcastle-under-Lyme. Laing Management Contracting has a £3.5m contract for refurbishment work at the Queensmere Shopping Centre in High Street, Slough, which will be carried out largely outside normal shopping hours to minimise inconvenience to the shoppers. The refurbishment includes closing the entrances to the building, replacing the fabric of the walls and floor, replacing heating and lighting, and building new shopping facilities.

BALFOUR BEATTY CONSTRUCTION has been awarded a contract, valued at £15m, by Milton Keynes Development Corporation for the construction of 600 metres of single carriageway road, including a three-span bridge over a canal. The contract, known as City Road, Blecham Way (Bond Avenue-A3), Milton Keynes, is due for completion in May 1986. A £45,000 contract has also been awarded by Pleasley City Council to create a clean room within an existing building at Tower Works in Northampton. Balfour Beatty is part of the BICC Group.

R. MANSELL has been awarded a £1m contract by Dorset Borough Council for alterations to four blocks of four-storey unoccupied maisonettes at Alamein Gardens, Stone, near Dorchester, Kent. This involves converting the existing 40 maisonettes into 20 maisonettes and 36 one-bedroom and studio flats and includes upgrading of exterior, replacement of windows, addition of pitched roofs and installation of central heating. Completion date is scheduled for March 1986.

Parliamentary business this week

TODAY
Commons: Until 7 pm, debate on a motion on EEC proposals for the 1985 CAP prices. Afternoon, motions relating to the National Health Service (General Medical and Pharmaceutical Services) Amendment Regulations for England and Wales and also for Scotland.

Environment—Subject: Radioactive waste. Witnesses: Central Electricity Generating Board (Room 29, 4.30 pm).
Treasury and Civil Service—Subject: Long-term trends in resources and public expenditure. Witnesses: British Medical Association; The King's Fund (Room 15, 4.30 pm).
Public Administration—Subject: National Health Service supplies and the Pharmaceutical Price Regulation Schemes. Witnesses: Sir Kenneth Stowe, Permanent Secretary, DHSS (Room 16, 4.45 pm).

TOMORROW
Commons: The Budget statement. Oppose: Opposition Business after 7 pm. Lords: Trustees Savings Bank Bill, Committee. National Heritage (Scotland) Bill, Third Reading. The NHS (General Medical and Pharmaceutical Services) Amendment Regulations and NHS (General Medical and

Pharmaceutical Services (Scotland) Amendment Regulations 1985, together with a motion that the House, while accepting the need for further savings in the NHS, approves the decision to prescribe the medicines which they think most suitable for their patients.

Select Committee: Education, Science and the Arts—Subject: Achievement in primary schools. Witnesses: The Society of Education Officers (Room 16, 11.30 am).

Joint Committee—Petition against Obstruction by Pass. Special Procedure Orders (Room 3, 10 am).

WEDNESDAY
Commons: Continuation of the Budget debate.

Lords: Debate on a motion calling on the Government to introduce legislation repealing section 2 of the Official Secrets Act 1911 and replacing it with a measure which would protect special

red classes of information whose wrongful disclosure would cause serious national harm and to bring forward proposals to establish a general right of access by the public to official information, subject only to specific exemptions.

Road Traffic (Eye-sight Requirement for Drivers) Bill, Second Reading. Witnesses: Traffic Police (Room 8, 10.30 am).

Unopposed Bills—Valerie Mary Hill and Alan Moore (Marriage Enabling) Bill, South Yorkshire Passenger Transport Bill; Royal Bank of Scotland Bill (Room 8, 4.15 pm).

Joint Committee—Petition against Obstruction by Pass. Special Procedure Orders (Room 3, 10.30 am).

THURSDAY
Commons: Continuation of the Budget debate. Lords: Reserve Forces (Safety of Employment) Bill, Third Reading. Involuntary Bill, Committee.

Select Committee—Joint Committee—Petition against Obstruction by Pass. Special Procedure Orders (Room 3, 10.30 am).

FRIDAY
Commons: Private Members' Motions.

Contracts and Tenders

THE REPUBLIC OF CAMEROON

CALL FOR INTERNATIONAL TENDERS FOR THE CONSTRUCTION OF THE MAPE RESERVOIR DAM AND CONTROL WORKS

The Ministry of Computer Science and Public Contracts announces an international call for tenders for the construction of the civil works of the Mape reservoir dam and control works, situated 70 km north of Foumban.

The financing of the project is being arranged with the following organisations:

- La Banque Européenne d'Investissement (B.E.I.)
- La Banque Africaine de Développement (B.A.D.)
- The Government of the Republic of Cameroon

The tenderer shall submit a tender in accordance with all the requirements of the participating financial institutions mentioned above.

The works have been divided into two lots:

Lot 1A
(a) A concrete structure incorporating a spillway and control works of some 40m in overall height with sector gates both in the lower outlets and the upper sluices. The works also include the two concrete wing walls for the connection to the earthfilled dam.
(b) A head race canal of some 1 000m in length and 15m in width at the base. Excavation quantities are in the order of 640 000m³.
(c) A tail race canal of some 1 250m in length and 25m at the base. Excavation quantities are in the order of 910 000m³.

Lot 1B
(a) A main earthfilled dam of some 1 521m in length and with a 35m maximum height.
(b) Seven auxiliary earthfilled dams totalling some 2 092m in length with a height varying from 1m to 7m.

The total volume of the embankments is in the order of 3 800 000m³.

The project's main target dates are the following:

- Contract award August 1st 1985
- Works start up on site November 1st 1985
- River cut off and diversion of the Mape December 1st 1985
- Partial impounding of the reservoir to elevation 710 July 1st 1987
- Works completed, ready to impound to 715.5 July 1st 1988

The works lots are distinct and can be awarded together or separately.

However, lot 1A is reserved for individuals, firms, companies, corporations or joint ventures originating in the "franc zone"; this part being financed by "la C.C.C.E."

The tenderers being selected for one and/or the other lot will have to constitute, before the final award, a joint venture or otherwise, jointly and severally liable for the two lots.

Call for the tender documents can be consulted at the Ministry of Computer Science and Public Contracts—Contracts Direction in Yaounde, immediately after release of the present communiqué and obtained on presentation of a proof of payment for the sum of 400 000 F CFA francs to the SONEZ accountant.

SONEZ shall organise for the benefit of the tenderers, a field trip to the site, followed by a briefing session during the week ending April 13th 1985.

The tenders either in French or English shall be forwarded to the following address:

MINISTRY OF COMPUTER SCIENCE AND PUBLIC CONTRACTS
CONTRACTS DIRECTION, YAOUNDE, CAMEROON

and shall be received at 12 noon, May 15th 1985, at the latest either by registered mail with receipt or deposited against receipt.

The tenders shall be labelled as follows:

— Call for International Tenders of May 15th 1985 for the construction of the Mape reservoir dam and control works—Lot 1 Civil Engineering—To be opened only in a tendering opening session.

The bid openings shall take place in the Conference Room of the Ministry of Computer Science and Public Contracts National Commission in closed session.

INVITATION TO FINANCE
NPC SUEZREFINERY PROJECT

A 125000 BSD topping refinery project in the engineering stage, ENPP on behalf of Nash Petroleum Company, is inviting banks and financial institutions interested in financing the project to address their inquiries to Farid Abo El-Dahab, Enppi, Tlx No. 93258 Enppi UN. Mail address is P.O. Box 2521, El-Horria, Heliopolis, Cairo, Egypt.

Project-Line credit financing is desired for the project to permit the procurement of engineered equipment and bulk materials from Japan and European countries prepared to finance the project. Engineering, procurement, construction, and project management are performed by a consortium of Enppi and Petrojet, both are Egpc companies.

REORGANISATION AND PRIVATISATION OF THE
NATIONAL BUS COMPANY:

Appointment of Advisers

- (1) The Rt Hon Nicholas Ridley MP, Secretary of State for Transport, is considering the appointment of advisers to the Department in connection with the proposed reorganisation and privatisation of the operations of the National Bus Company (NBC), for which powers are being sought in the Transport Bill now before Parliament.
- (2) Advice will be required for the Government's consideration of the NBC's proposals on the following matters:
 - (a) the preparation of NBC's local companies to compete fairly with each other and with other operators on deregulation of the bus industry. The Bill provides that deregulation should take place on or after 1st October 1986;
 - (b) the programme for the transfer of NBC's operations to the private sector in accordance with its main objective and duties under the Bill. The main objective will be to promote sustained and fair competition both between NBC's own operating companies and between those companies and others; the duties are to have regard to the net value to be secured from disposals and to give employees opportunity to gain control of the operations for which they work;
 - (c) the disposal of individual local companies in accordance with the main objective and duties;
 - (d) particular issues arising from the privatisation of NBC's operations and the dissolution of the Company, including future arrangements for pensions of current and former employees and arrangements for the disposal of leases and other assets held by NBC or its subsidiary companies.
- (3) Merchant Bank and other financial advisers interested in being considered for this appointment should notify the Department of Transport by 20 March 1985. The contact point is A. P. Brown, Department of Transport, Passenger Transport Directorate, Room 517/13, 2 Marsham Street, London SW1P 3ES (tel: 01-212 8197).

Personal

SWITZERLAND

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Company Notices

RIGGS NATIONAL CORPORATION
USD 60,000,000

FLOATING RATE SUBORDINATED NOTES 1986
In accordance with the provisions of the Notes, notice is hereby given that for the period March 18th 1985 to June 18th 1985 the Notes will carry a rate of interest of 9½ per cent per annum with a Coupon amount of US\$250.76.

CHEMICAL BANK
as Agent

NOTICE TO BONDHOLDERS

Sub-Scania Aktiefond
US\$50,000,000 8½ per cent Bonds due 15th March, 1989
Pursuant to the terms and conditions of Bonds, notice is hereby given that during the twelve-month period beginning 15th March, 1984, the Company has purchased US\$2,500,000 principal amount of the subject Bonds in satisfaction of the Purchase Fund requirements.

As of 15th March, 1984, the principal amount of such Bonds remaining in circulation was US\$30,000,000.

For SAAB-SCANIA AKTIEFOND
18th March, 1984
London

Art Galleries

AGNEW GALLERY, 43 Old Bond St., W1.
128 67th, MODERN BRITISH WORKS
OF Art until April 25, Mon-Fri 9.30-5.30; Thurs, until 6.30.

Clubs

EVR has outlined the others because of a policy of the play and value for money. Sponsors must be kept in the picture. Sponsors must be kept in the picture. Sponsors must be kept in the picture.

INVEST IN 50,000 BETTER TOMORROWS!

50,000 people in the United Kingdom suffer from progressively paralyzing MULTIPLE SCLEROSIS — the cause and cure of which are still unknown — HELP US BRING THEM RELIEF AND HOPE.

We need your donation to enable us to continue our work for the CARE and WELFARE OF MULTIPLE SCLEROSIS sufferers and to conscious our commitment to find the cause and cure of MULTIPLE SCLEROSIS through MEDICAL RESEARCH.

Please help—send a donation today to:
Room F1
The Multiple Sclerosis Society of G.B. and N.I.
286 Munster Road
Fulham, London SW6 6BE

Appointments

INVESTMENT BANKING

A leading international investment group requires an Investment Banking Associate for its Japan Desk, based in London.

Responsibilities include preparation of financing proposals to Japanese client; execution of transactions related thereto and client contact with European offices of Japanese corporations, banks and securities companies.

The position requires familiarity with Japan and Japanese business institutions and at least six years' experience in investment banking in the U.S.A. as well as Japan. The successful applicant should be educated to degree standard, be a native English speaking fluent in Japanese (both speaking and reading); be able to perceive opportunities in capital markets, creatively match these with the financing requirements and objectives of Japanese clients and communicate these ideas to clients and to other members of the Japan business team in Tokyo and New York. Salary negotiable.

If you are in your early 30's, have the necessary qualifications and experience, please write in confidence enclosing full curriculum vitae to:

Box AB939, Financial Times, 10 Cannon Street
London EC4P 4BY

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1207 Geneva
Tel: 34.05.40

Public Notices

SCOTTISH SCOTLAND
LIFE ASSURANCE SOCIETY

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the SCOTTISH SCOTLAND LIFE ASSURANCE SOCIETY will be held at the HEAD OFFICE, No. 31, ST. ANDREW SQUARE, GLASGOW, on MONDAY, 22nd MARCH 1985 at 12 noon to consider the accounts and balance sheet and to elect Directors and the Auditor, to elect Directors to determine the remuneration to be paid to the Directors and to re-appoint the Auditor.

A Member of the Society is entitled to attend and vote at any Annual General Meeting if he is entitled to appoint another person to attend and vote instead of him. Members must be kept in the picture. Members must be kept in the picture. Members must be kept in the picture.

The meeting will be held at the Head Office, No. 31, St. Andrew Square, Glasgow, on Monday, 22nd March 1985 at 12 noon. The meeting will be held at the Head Office, No. 31, St. Andrew Square, Glasgow, on Monday, 22nd March 1985 at 12 noon.

Closing prices, March, 15

[illegible]

Continued on Page 22

Closing prices, March 15

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

[illegible]

FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER



WORLD STOCK MARKETS

OVER-THE-COUNTER

Continued from Page 28

Stock	Sales	High	Low	Last	Chg
Amoco	127	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4

Stock

Stock	Sales	High	Low	Last	Chg
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4

Stock

Stock	Sales	High	Low	Last	Chg
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4

Stock

Stock	Sales	High	Low	Last	Chg
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4

Stock

Stock	Sales	High	Low	Last	Chg
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4
Amstar	1	14 1/2	14 1/4	14 1/4	+ 1/4

Notice of Redemption and Termination of Conversion Rights

Monsanto International Finance Company

4 1/2% Guaranteed Sinking Fund Debentures Due 1985

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Indenture dated as of October 15, 1965 under which the above-designated Debentures were issued, \$1,196,000 of principal amount of said Debentures of the following designated numbers have been drawn by lot for redemption on April 15, 1985 through the operation of the Sinking Fund at the redemption price of 100% of the principal amount thereof, together with accrued interest thereon to the date fixed for redemption:

Debenture No.	Principal Amount	Redemption Price
1000001	\$100,000	100%
1000002	\$100,000	100%
1000003	\$100,000	100%
1000004	\$100,000	100%
1000005	\$100,000	100%
1000006	\$100,000	100%
1000007	\$100,000	100%
1000008	\$100,000	100%
1000009	\$100,000	100%
1000010	\$100,000	100%
1000011	\$100,000	100%
1000012	\$100,000	100%
1000013	\$100,000	100%
1000014	\$100,000	100%
1000015	\$100,000	100%
1000016	\$100,000	100%
1000017	\$100,000	100%
1000018	\$100,000	100%
1000019	\$100,000	100%
1000020	\$100,000	100%
1000021	\$100,000	100%
1000022	\$100,000	100%
1000023	\$100,000	100%
1000024	\$100,000	100%
1000025	\$100,000	100%
1000026	\$100,000	100%
1000027	\$100,000	100%
1000028	\$100,000	100%
1000029	\$100,000	100%
1000030	\$100,000	100%
1000031	\$100,000	100%
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1000094	\$100,000	100%
1000095	\$100,000	100%
1000096	\$100,000	100%
1000097	\$100,000	100%
1000098	\$100,000	100%
1000099	\$100,000	100%
1000100	\$100,000	100%

The Debentures specified above are to be redeemed for said Sinking Fund at the option of the holder (a) at the office of the Paying Agent, Citibank N.A., 111 Wall Street—5th Floor, New York, New York 10038 or (b) subject to any laws or regulations applicable thereto, at the main offices of Citibank N.A. in Amsterdam, Brussels, Frankfurt (Main), London (City), Paris, and the main office of Kreditbank Luxembourg S.A. in Luxembourg. The company's Paying Agent, Citibank N.A., is authorized to receive and pay the principal and interest on the Debentures. Payment at the office referred to in (b) above will be made by check drawn on, or by a transfer to a dollar account maintained by the payee with a bank in The City of New York. On the redemption date said Debentures shall become due and payable at the redemption price and on and after said date, interest on said Debentures will cease to accrue.

The Debentures specified above should be presented and surrendered at the office set forth in the preceding paragraph on the said date together with all interest coupons maturing subsequent to the Redemption Date. Coupons due April 15, 1985 should be detached and presented for payment in the usual manner.

CONVERSION OF DEBENTURES INTO COMMON STOCK

The above specified Debentures called for redemption may be converted at the option of the holder thereof at the office of the Paying Agent, Citibank N.A., 111 Wall Street—5th Floor, New York, New York 10038 or (b) subject to any laws or regulations applicable thereto, at the main offices of Citibank N.A. in Amsterdam, Brussels, Frankfurt (Main), London (City), Paris, and the main office of Kreditbank Luxembourg S.A. in Luxembourg. The company's Paying Agent, Citibank N.A., is authorized to receive and pay the principal and interest on the Debentures. Payment at the office referred to in (b) above will be made by check drawn on, or by a transfer to a dollar account maintained by the payee with a bank in The City of New York. On the redemption date said Debentures shall become due and payable at the redemption price and on and after said date, interest on said Debentures will cease to accrue.

MONSANTO INTERNATIONAL FINANCE COMPANY

By: CITIBANK, N.A. as Trustee

March 15, 1985

Indices

NEW YORK	DOW JONES	1984-85	Since Comp't
Mar. 15	Mar. 14	Mar. 15	Mar. 11
Amstar	127	14 1/2	14 1/4
Amstar	1	14 1/2	14 1/4
Amstar	1	14 1/2	14 1/4
Amstar	1	14 1/2	14 1/4
Amstar	1	14 1/2	14 1/4
Amstar	1	14 1/2	14 1/4
Amstar	1	14 1/2	14 1/4
Amstar	1	14 1/2	14 1/4
Amstar	1	14 1/2	14 1/4
Amstar	1	14 1/2	14 1/4

The Rank Organisation Plc

4 1/2 per cent. Convertible Loan 1993

As previously announced, an adjourned meeting of Bondholders will be held on 22nd March, 1985 at 11.00 a.m. at the Royal Garden Hotel, Kensington High Street, London, W8 4PT. Full details of the proposals to be considered at this meeting are set out in an explanatory circular which is available from Rank, S.G. Warburg & Co. Ltd., and the paying agents at the addresses set out below.

If the proposals are duly approved by Bondholders on 22nd March, 1985 and implemented, the Bonds will revert to their original unsecured status, and the annual rate of interest on the Bonds will be increased from 4 1/2 per cent. to 5 per cent. with effect from that date. If the proposals are not approved by Bondholders and implemented, the Bonds will retain their present secured status and there will be no increase in the coupon.

Bondholders are strongly urged to make the arrangements necessary for their Bonds to be voted at the adjourned meeting.

The Rank Organisation Plc
6 Cornhill Place,
London WC2R 2JZ,
England
(Tel. 01-629 7454)

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31 King William Street,
London EC4R 3AS,
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(Tel. 01-280 2222)

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London EC2N 1JL,
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1017 CA Amsterdam,
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(Tel. 020-211 118)

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New York, NY 10038 U.S.A.,
(Tel. 212-425 6267)

Deutsche Bank Aktiengesellschaft,
Postfach 10 15 24,
D-6000 Frankfurt am Main,
Germany
(Tel. 069-7130-3262)

Banko Internazionale a Luxembourg S.A.,
1 Boulevard Royal,
Luxembourg
(Tel. 47911)

Financial Times Monday March 18 1985

Liberty Life Assurance Co Ltd
Sunderland, New Zealand
Fund Managers: Tenor: Revenue: & Co

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MINES—Continued

"Recent Issues" and "Rights" Page 18

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £800 per annum for each company.

Granville & Co. Limited

Member of The National Association of Security Dealers
and Investment Managers
27/28 Leat Lane London EC3R 8EB Telephone 01-621 1212

Over-the-Counter Market

Company	Price	Change	Gross Yield	P/E	Fully
Capitallm.	100.0	0.0	8.8	7.9	9.4
200's	100.0	0.0	8.8	7.9	9.4
Ass. Brit. Ind. Ord.	142	+	6.4	11.2	6.3
Ass. Brit. Ind. CULS	148	+	6.4	11.2	6.3
Airgroup Group	57	+	2.5	8.3	4.4
Armstrong & Rhodes	35	+	3.4	2.4	14.4
Barclays Bank	143	+	12.0	7.1	5.8
Bay Technology	170	+	15.7	13.8	8.3
CCl. Ordinary	110	+	15.7	13.8	8.3
CCl. 11pc Conv. Prm.	110	+	15.7	13.8	8.3
Carborundum Ord.	85	+	10.7	12.4	—
Carborundum 7.5pc Pr.	85	+	10.7	12.4	—
Citicorp Group	439	+	6.5	12.0	6.1
Debenhams Services	310	+	8.8	3.7	10.6
Frank Hovell	27	+	1.0	1.0	1.0
Frank Hovell Pr.Ord	27	+	1.0	1.0	1.0
Frederick Parker	27	+	1.0	1.0	1.0
George Steir	27	+	1.0	1.0	1.0
Ind. Precision Castings	27	+	1.0	1.0	1.0
Ind. Group	27	+	1.0	1.0	1.0
Jackson Group	102	+	1.0	1.0	1.0
James Burroughs	253	+	1.0	1.0	1.0
John Howard & Co.	88	+	1.0	1.0	1.0
Lingaphone Ord.	171	+	1.0	1.0	1.0
Lingaphone 10.5pc Pr.	171	+	1.0	1.0	1.0
Minihouse Holding NV	612	+	1.0	1.0	1.0
Robert Jenkins	43	+	1.0	1.0	1.0
Suttons 'A'	78	+	1.0	1.0	1.0
Todday and Carlisle	78	+	1.0	1.0	1.0
Travlin Holdings	360	+	1.0	1.0	1.0
Unilever Holdings	26	+	1.0	1.0	1.0
Walter Alexander	26	+	1.0	1.0	1.0
W. S. Yates	224	+	1.0	1.0	1.0

Malayan Banking Berhad

US \$60,000,000

Negotiable Floating Rate Dollar

Certificates of Deposit due 1987 Tranche A

In accordance with the provisions of the Certificates, notice is hereby given that the rate of interest for the period from 19th March 1985 to 19th June 1985 has been established at 9 1/4 per cent per annum.

The interest payment date will be 19th June 1985. Payment which will amount to US \$6,268.10 per Certificate, will be made against the relative Certificate.

Agent Bank
Bank of America International LimitedCROSSRATE SYSTEMS
Foreign Exchange Management

Finvest S.A.
22 Avenue du Mail
1205 Geneva
Telephone: 41-22-283244
Telex: 422 556 FINV CH

Crossrate Systems, Inc.
P.O. Box 99402
San Francisco 94109
Telephone: 415-441-6224
Telex: 595974 JCKXK SFO

CURRENCIES, MONEY and CAPITAL MARKETS

FINANCIAL FUTURES

FOREIGN EXCHANGES

LONDON

THREE-MONTH EURO-DOLLAR
5m points of 100%

Month	Close	High	Low	Prev
March	89.30	89.30	89.15	89.22
June	89.30	89.30	89.15	89.22
Sept	89.30	89.30	89.15	89.22
Dec	89.30	89.30	89.15	89.22
March	89.30	89.30	89.15	89.22
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Sept	89.30	89.30	89.15	89.22
Dec	89.30	89.30	89.15	89.22

THREE-MONTH STERLING
2500,000 points of 100%

Month	Close	High	Low	Prev
March	104.12	104.12	104.00	103.28
June	104.12	104.12	104.00	103.28
Sept	104.12	104.12	104.00	103.28
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Dec	104.12	104.12	104.00	103.28

THREE-MONTH NATIONAL GILT
500,000 points of 100%

Month	Close	High	Low	Prev
March	104.12	104.12	104.00	103.28
June	104.12	104.12	104.00	103.28
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FINANCIAL TIMES SURVEY



International Capital Markets

Securities come to the fore

BY PETER MONTAGNON

International capital markets have opted for securitisation but the abundance of new instruments suggests they are still in a state of flux. Competition rages as never before with banks seeking to snatch market share, either by paring returns to the bone or by devising an increasing number of fanciful innovations.

SECURITY conscious. That is perhaps the best way of describing the international capital markets at the start of 1985. This is not just because after three years of developing country debt crisis bankers are still very choosy about whom they do business with. It is also, and even more important, because of the way in which most business is now being done—through the securities market, rather than by direct bank lending.

The amount of money intermediated through the capital markets remained very large last year, totalling no less than \$270n, according to the Organisation for Economic Co-operation and Development (OECD). But the syndicated loan market again took a back seat to the international bond market, where volume soared largely because of the growing popularity of the floating rate note market.

And during 1984 a new form of capital market vehicle, the Euronote issuance facility, established a firm hold on market share, eroding still further the power and position of the big commercial banks.

The Euronotes have now

become a battleground in which the big commercial banks are struggling to maintain their influence against an up-and-coming phalanx of investment banks.

The availability of large amounts of money to lend, once the commercial bankers' trump card, no longer counts for much when their customers can raise cheaper funds elsewhere.

The strength of the investment banks lies in their highly developed ability to provide just this service. By securitising debt and making it negotiable they are able to sell it direct to investors, bypassing the traditional intermediation performed by commercial banks.

This can often be done at rates lower than those at which banks can afford to lend. Sweden, for example, is able to borrow in the Euronote market at five basis points (hundredths of a percentage point) lower than the London interbank bid rate for Euro-dollar deposits, which constitutes the actual cost of money to the banking system.

So confident of its rating is Norsk Hydro, the Norwegian energy and chemicals concern, that its finance director, Mr

George Stormer says he will place initial proceeds of the company's new Euro-commercial paper programme on deposit with banks at a profit.

For commercial banks this development is nothing short of sinister. Buffeted by the developing country debt crisis they have seen their own credit-standings slip below that of some of their most sought-after borrowers. The declining revenues of Opec countries has made it harder for them to attract deposits and they have had no choice but to cede business in the capital markets to the more efficient and sophisticated securities sector.

At its most extreme this process risks forcing commercial banks to fall back on those borrowers whose credit-rating is so low they cannot borrow in the securities market. The overall quality of their assets would then decline and with it, in a downward spiralling vicious circle, their own credit standing in the marketplace.

But now, however, many of the big banks which used to dominate the syndicated loan market have realised that they have to fight back by challenging the investment banks at

their own business. Last summer Citicorp announced in London that it was disbanding its syndicated loan division to permit a more flexible marketing strategy for a whole range of Euro-market products.

Similar, but more discreet, organisational changes have taken place at other banks such as Bank of America and Lloyds Bank International as they seek to develop and expand their expertise and placing power in the market for bonds and short-term securities.

For the new emphasis on securities business is not just a question of commercial banks becoming atrophied. The securities business is booming for other reasons too. More buyers are around, especially in Japan where the financial muscle of the pensions and insurance industry is huge and growing.

Computerisation and the development of the swap market has added immeasurably to the range of opportunities available. And round the world regulations are being broken down in a way that can only make the business of issuing and dealing in international securities freer, and therefore more

efficient than ever before.

Indeed, some bankers argue that 1984 will be seen by historians as a watershed year in the international capital markets. Not only did the U.S. finally decide to abolish withholding tax on interest paid to non-residents, enabling the Treasury and other Government agencies to borrow for the first time in the Eurobond market. Similar steps were taken in other countries, such as Germany and France.

Under pressure from the U.S., Japan agreed to liberalise its own financial markets, creating new opportunities for foreign banks to do business in yen through the development of the Euroyen bond and certificate of deposit market.

Elsewhere the City revolution has begun to break down traditional demarcations in London, while even conservative Switzerland has agreed to let foreign banks lead bond issues and private placements denominated in Swiss Francs.

Coupled with the rapid development of the swap market (in which debtors can swap

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International Capital Markets 2

Pull from U.S. set to continue

World Economy
MAX WILKINSON

MOST OF the major uncertainties about the world's economic prospects can be seen in the shape of an X.

The upstroke shows the extraordinary rise of the U.S. dollar, which has appreciated with only a few minor interruptions by about 45 per cent during the last four years.

The downstroke shows the rapid deterioration of the U.S. current account of the balance of payments from a small surplus in 1981 into a deficit of \$100bn last year. This year, the current account deficit is generally expected to rise to \$130bn, with figures of around \$150bn predicted for 1986.

This means that even if the growth of the U.S. economy is halved from the 8.8 per cent achieved in 1984, American imports will continue to exert a powerful pull on the economy of the rest of the world.

This is expected by most commentators to help Europe and Japan to continue to grow at a steady pace this year, with Japan achieving perhaps 5 per cent and Europe about 2½ per cent.

The Organisation for Economic Co-operation and Development (OECD) in Paris is predicting that the industrial world's average growth will settle down from about 4½ per cent last year to 3 per cent this year, slowing further in the first half of 1986.

Consequences

Most of this slowdown would be the arithmetical consequence of more moderate expansion in the U.S. Overall, the world is expected to approach that long desired "convergence" in economic performance, with growth rates close together and annual inflation rates in most major countries only a few percentage points either side of 5 per cent.

A general feeling of optimism has been fostered by the much better than expected performance of the world's economy in 1984. World trade grew by more than 9 per cent, which was far more than most forecasters had predicted, and the best performance for at least eight years.

This helped the developing countries' economies to grow by

an average of about 3½ per cent, a low figure by the standards of previous decades, but easily the fastest expansion since 1979. This, combined with restraint on imports, enabled them to make big strides in reducing their current account deficits, and so reduced the threat of a world debt crisis much more than most observers had dared to hope.

All the predictions that the U.S. growth would slow down sharply—or collapse into recession—under the growing weight of the Federal debt have been proved wrong. The slowing has been gradual, and despite widespread predictions to the contrary, has been accompanied by continued moderate inflation.

But that puzzling upward stroke of the X remains, also defying forecasts and challenging rational explanation. A year ago, when dollar denominated interest rates were on a clearly upward trend, it was easy to argue that capital flows attracted by high relative interest rates dwarfed the depressive effect of the trade balance on the dollar's value.

Since last summer, however, there has been a marked decline in U.S. interest rates, with the three-month Certificate of Deposit rate down to around 8½ per cent by the beginning of March compared with 11½ per cent in early July. Although long-term bond rates have moved more slowly they are also substantially down from last summer's peak partly because of greater confidence that inflation will remain low.

More spectacularly, as the broker Wood Mackenzie has shown, the gap between U.S. short-term interest rates and the weighted average for the rest of the world fell from about 3 percentage points last summer to zero by the beginning of this year.

It might be argued that because of an improved U.S. inflation performance the gap in real yields has not changed very much. However, this could hardly explain the perverse behaviour of the dollar, which has continued to breach new records as the relative yield of dollar assets has diminished.

Controlled glide

Yet, in spite of a chorus of predictions that the dollar will eventually fall out of the sky, and attempts by central banks to promote a controlled glide before it reaches stalling altitude, investors have continued to queue for a ride.

Does this matter for the world's economy? It is possible that an uneasy balance will be maintained throughout this year, with the U.S.'s deepening trade deficit matched by a growing current account surplus on the part of Japan and Europe.

The EEC countries are expected on present trends to achieve a current account surplus of \$90bn this year compared with a deficit of \$10bn in 1984. Japan is forecast to increase its surplus to about \$40bn, which would be 25 per cent higher than last year's figure and twice the surplus in 1983.

The increased flow of exports from Japan and the EEC into the U.S. would have to be counterbalanced by a rising net capital inflow to the U.S.

This process clearly cannot go on for ever and is partly self-adjusting. The increased leakage of U.S. demand into imports, the squeeze on company profits caused by the high dollar and the drag of high interest real rates on investment must eventually combine to slow the pace of U.S. growth.

Slower growth will reduce the pressure of demand for more imports, but it will do nothing by itself to ease the pressure on the Federal deficit so that interest rates may well remain high.

The main question is whether a gentle slowing down of the U.S. economy, with perhaps some easing of the dollar's international value, can be achieved without a precipitous crash or damaging import controls.

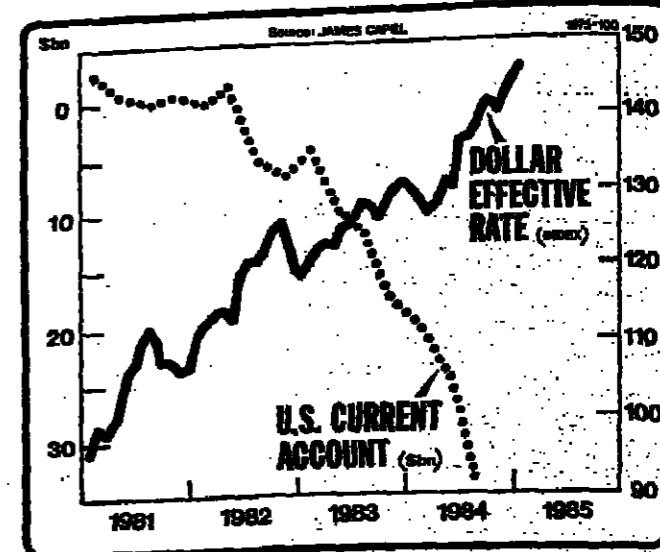
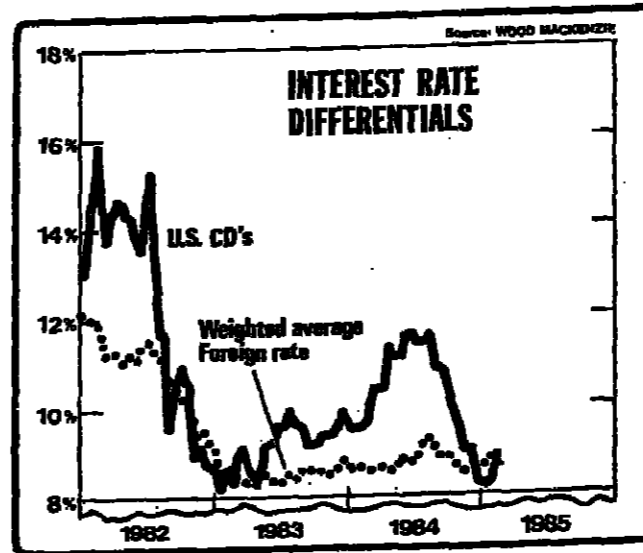
If a sudden reversal of investor's confidence did cause a crash of the dollar, it is hard to see what would stop it, apart, perhaps, from the lack of obvious havens for the money to shelter in.

One effect would be a sharp initial worsening of the U.S. current account deficit, before the improved competitiveness had time to stimulate exports. U.S. inflationary pressures would increase as would the difficulty of financing the Federal deficit, so there would be upward pressure on U.S. interest rates, with probably a rise in the dollar price of commodities.

This might be some help to developing countries with large debts denominated in dollars, but the ability of oil-producing countries to buy imports from Europe and Japan would be diminished. A major fall of the dollar would certainly put strong pressure on the Opec cartel with incalculable results.

For Europe and Japan the immediate question would be the extent to which fiscal or monetary policy should be eased to make up for the eventual cut in exports to the U.S.

The most likely response would be an easing of interest rates. For Europe at least, an easing of interest rates would do little to help the army of unemployed unless the economies proved flexible enough to expand in step with the diminishing opportunities to export to the U.S. Recent history is not encouraging on this point.



Higher the rise harder the fall

Interest and Exchange Rates
PHILIP STEPHENS

THE script has not changed but the longer the storyline runs the more spectacular the ending may be.

Central bankers, economists and politicians have found predicting a decisive fall in the value of the dollar a forecasters' graveyard.

Each new prophecy of impending doom for the U.S. currency appears only to whet the appetite of the investors who have been pouring funds into dollar assets for the past four years.

At the beginning of 1983 the forecasters were convinced that the turn was imminent. The dollar spent the next year gaining another 15 per cent in value.

Unabashed, economists are still generally agreed that the dollar's strength and the huge budget and current account deficits associated with it are unsustainable.

But few predict with any certainty when the "inevitable" will occur. And when it does whether there will be a "hard landing," with U.S. interest rates spiralling upwards as the dollar plunges.

Or whether the consummate skills shown by Mr Paul Volcker and his U.S. Federal Reserve in steering the U.S. economy through the strongest recovery in 30 years can yet ensure a gradual and ordered decline for the dollar.

The higher it goes the more danger that the outcome will be the former. The best guess of most economists is that the dollar is already about 40 per cent overvalued against other leading currencies.

Mr C. Fred Bergsten, director of the Washington-based Institute for International Economics and one of the most eloquent prophets of doom, puts a forceful case for a dramatic reversal unless the U.S. acts quickly to make major cuts in its budget deficit.

A few statistics tell the story: On current trends by the end of this year the U.S. will be a bigger net debtor than Brazil. By the end of the decade its debts will exceed the total owed by all developing countries.

Even if the dollar stopped rising now its huge current account deficits would leave the U.S. with something like \$1,000bn of foreign debt by the early 1990s.

At the same time the U.S. manufacturing base, its farm and its tradeable services industries would be decimated.

But if it seems obvious that such a trend is not sustainable—that either the internal pressures towards protectionism or the saturation of overseas portfolios with dollar assets will bring the dollar crashing down—there is little sign yet of a crash.

Part of the dollar's recent rise can be described as speculative "froth." But the European central bank's decision to buy billions of dollars trying to halt the upward trend will testify to the strong underlying demand for dollars.

The huge surplus of Japanese savings and the inertia of most

European economies, relative to the dynamism in the U.S., remain a convincing argument for investors to put the bulk of their funds in dollar assets.

President Reagan's explanation of the dollar's strength as simply a reflection of the superiority of the U.S. economy is clearly far from the whole story. But it is the kernel of truth in the argument that probably explains the fury it arouses among European governments.

At the same time although protectionist pressures in the U.S. are clearly growing they are not yet threatening a collapse of the world trading system.

The central forecast of many economists therefore is that the surplus of world savings over demand outside the U.S. could well hold the dollar at present levels or push it higher over the short term.

The problem for other economies and capital markets outside the U.S. would then be to what extent they could continue to insulate themselves from the strength of the U.S. currency and the possibility of higher U.S. interest rates.

The performance of other major bond markets—with the notable exception of the UK which has suffered particular problems—has so far been encouraging.

During 1984 the D-Mark lost around 15 per cent of its value against the dollar. At the same time West German short-term interest rates were stable at just under 6 per cent and the yield on 10-year bonds fell to around 7½ per cent from 8½ per cent.

The yen suffered less than most other currencies, losing about 8 per cent against the dollar. Japanese short-term interest rates were steady at just under 6½ per cent and 10-year bond yields fell to around 8½ per cent from 9½ per cent.

Industrial strife

Only Britain, which saw the dollar's strength compounded by industrial strife and falling oil prices, experienced a sharp rise in interest rates. By January the pound's fall had pushed short-term interest rates up to 14 per cent, and 10-year bond yields up to 11½ per cent.

The key to the relatively good performance of most bond markets outside the U.S. has been the expectation that the

EUROMARKETS IN 1985

A Financial Times conference, Euromarkets in 1985, will be held at the Hotel Inter Continental, Hamilton Place, London W1, on April 1 and 2.

Subjects include: A New York investment banker's strategy in the dawn of the global market; The new era—business methods, profitability, management; The U.S. and Japan—their ad hoc agreement and its implications; Japan's international economic objectives; Global equity issues; A corporate view of the international market; The internationalisation of equity markets from the investment banker's point of view; Venezuela and the international financial system; The role of AIBD in the new environment; Regulatory questions affecting the London market; The changing City and changing markets; Global sales/trading systems—a U.S. view; The European market; The economic outlook—its impact on bond markets; The dollar.

dollar must eventually fall, providing an exchange rate bonus to investors to compensate them for a lower rate of real returns.

Since last summer they have also been helped by the sharp fall in short-term interest rates in the U.S., which has pushed the Fed funds rate down to around 8½ per cent.

Whether the world's capital markets can continue to insulate themselves from events in the U.S. at a time when most forecasters are predicting a rise in interest rates as the U.S. economy regains some momentum is more doubtful.

Mr Volcker has made clear that unless Congress takes credible action to cut the budget deficit the expectation must be of higher U.S. interest rates to attract the foreign funds needed to finance it.

The strength of the dollar has provided some cushion for the Fed in assessing whether monetary policy needs to be tightened to dampen inflation, but it is clear that the process of easing credit which began last summer has come to an end.

Mr Volcker's view is that the "soft landing" for the dollar can only be achieved if substantial cuts in the budget deficit (perhaps in the order of \$40bn to \$50bn this year) with the promise of much more in other years) allow the coincidence of declining interest rates and a gentle fall in the U.S. currency's value.

The problem is that the squaring up in Congress so far with the Democrats unwilling to give

any comfort to the Administration ahead of next year's elections points to a half-hearted compromise which would not be enough to have any real impact on U.S. interest rates.

That scenario—which of course presumes that the dollar does not crash in the meantime—points to a best stable U.S. interest rates and quite possibly some further rise.

Central forecast

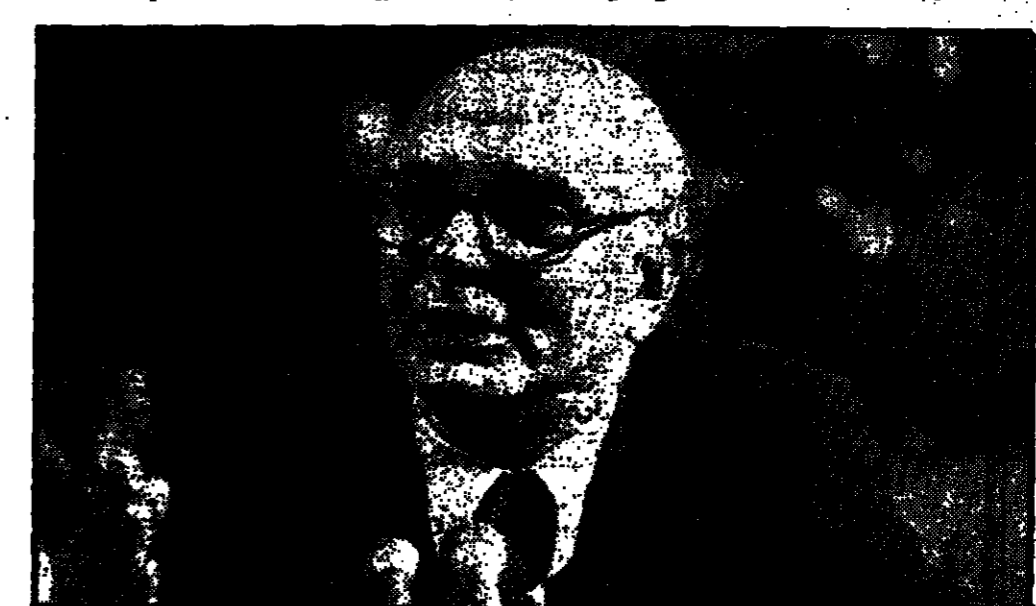
The central forecast of most economists is that long-term bond yields in the U.S. cannot be expected to move much below 11 per cent over the next year, with the balance of probability pointing to a level closer to 12 per cent.

The best hope for non-dollar capital markets would then be that investors remain willing to accept lower returns because of the risk of a dollar collapse.

But there must remain considerable doubts over how much further interest rates in the rest of the world can be decoupled from those in the U.S.

It may be that the higher the dollar goes the more of a premium investors in the U.S. will demand in terms of relative interest rates to compensate them for the danger of a dramatic reversal in the dollar's fortunes.

But it could be that the end of the dollar's success story is still a long way off, and that other currencies and bond markets will have to pay the price for some time yet.



Mr Paul Volcker, chairman of the U.S. Federal Reserve Board: showing consummate skills in steering the U.S. economy through the strongest recovery in 30 years

Securities come to the fore

CONTINUED FROM PAGE 1

borrowings to shift from one currency to another and from fixed to floating rate or vice versa), this all adds up to what professionals now call a global securities market in which precise needs of borrowers and investors can be met even when they do not superficially appear to match.

For example, a U.S. corporation wanting fixed rate dollars at a time when Wall Street is weak can raise the money in yen and swap it into dollars.

Even more remarkable, an investor who wants to add to his portfolio of British Government gilt-edged stock and increase his exposure in yen can theoretically do just that by buying gilt-edged and swapping the holding into Japanese currency. In the process he

might find himself picking up a higher yield than if he had just bought Japanese Government stock.

But this brave new world is far from being an easy one for the banks that now seek to master it. For a start competition rages as never before as participants seek to snatch market share, either by lowering their prices to apparently suicidal levels or by devising more and more fanciful innovations.

The cognoscenti are having a field day in the Euromarkets and new jargon is being added to their vocabulary almost daily.

As with the real world which medieval monks once debated how many angels could dance on the head of a pin, bankers home in on the advantages of such unlikely sounding devices as flip-flop floaters and Guns (grantor underwritten notes). The international capital

market may have opted for securitisation but the abundance of new instruments suggests that it is still in a state of flux.

Moreover, it is also a pointer to a much more serious problem that lies ahead. This is the simple fact that there may not be enough new business available to satisfy the needs of all those who want a slice of the cake.

The mammoth recycling task necessitated by the oil shocks of the 1970s is now largely complete. In the main sovereign borrowers need less money than before and other clients, such as large industrial corporations, are now very liquid.

Volume last year was driven by the willingness of many countries, such as Sweden, to renegotiate their debt to achieve lower cost. But that process is also now more or less exhausted. Bankers have to hustle

for business as never before. With margins dropping, only volume can bring an increase in return and as volume grows so does risk.

Suddenly investment banks have found their balance sheets growing as their inventory of unsold securities expands. That is all right as long as the stocks can be financed at a profit. But what if the yield curve changes or the dollar crashes and there is a sell-off in the bond markets? Then the losses would really hurt.

That is a sobering thought, but it is one that is now uppermost in many bankers' minds. Securitisation may have been a boon to borrowers; it may offer investors new opportunities. But one thing it has not yet done is open the door to easy profit for those who depend on the marketplace for their living.

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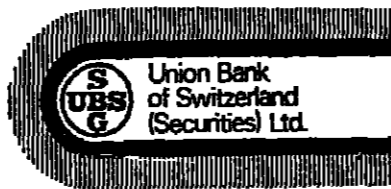
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March 1985

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International Capital Markets 4

Euphoria fades as problems remain acute

Debt Crisis
PETER MONTAGNON

LAST December's International Monetary Fund ratification of Argentina's economic programme unleashed a wave of euphoria in the international banking community. The last recalcitrant debtor had been brought to heel and, as a result, the developing country debt crisis finally seemed to be under control.

The relief was to be short-lived. Barely two months later the IMF suspended its loan programme to Brazil because of its failure to meet key domestic monetary targets. As inflation climbed inexorably in Argentina, the IMF's programme came off the rails. Unusually tough discussions were going on with Mexico about its targets for

1985. January's euphoria has now given way to the grim realisation that, despite the progress of the past year, a long hard slog still lies ahead for debtors and creditors alike. In their latest round of debt rescheduling agreements, commercial banks have made many concessions. For their part the debtors have made great strides in improving their external accounts. This, however, cannot obscure the fact that in most of the countries concerned domestic economic problems remain acute.

Since last summer a new approach has characterised commercial bank thinking on rescheduling. Instead of devising programmes for the debtors to follow, the banks have been designing to aid recovery over the longer term.

Renegotiation fees have been scrapped; so, generally, has the practice of charging interest

margins over the expensive U.S. prime rate. Margins over Euro-currency rates have fallen sharply while maturities have lengthened. Multi-year arrangements in which debt maturing for several years ahead is rescheduled all at once have become the norm. This has the obvious advantage of eliminating repayments lumps in the second half of the current decade.

In their way these new arrangements are revolutionary, but they do not go nearly as far as some of the proposals that went the rounds last spring when interest rates were rising. Governments in the OECD (Organisation for Economic Co-operation and Development) countries have successfully resisted pressure for a global solution to the debt crisis. Problems are still handled on a case-by-case basis and debtors are still expected to pay interest at market rates without any form of capping or capitalisation that once seemed likely.

That, coupled with a continuing shortage of new credit, means that they remain forced to generate large surpluses on their foreign trade to provide the cash needed for interest payments.

This has two main consequences: first the large and politically damaging net transfer of financial resources out of Latin America has continued (the Cartagena group of debtor countries puts it at \$55bn last year), and second prospects for economic growth have been impaired.

According to the U.S. Economic Commission for Latin America and the Caribbean, economic output in the region expanded by 2.6 per cent last year, following contractions in both 1982 and 1983.

However, growth produced only a minimal recovery in living standards, which rose just 0.2 per cent, with 12 of the 19 countries surveyed experiencing absolute declines in per capita income.

After a year in which the region's aggregate trade surplus jumped to \$37.6bn from only \$9.7bn in 1983, attention has thus switched to ways in which the economic recovery can be made to accelerate.

Here many of the countries concerned, including three of the largest debtors, Brazil, Argentina and Mexico, have run up against IMF queries about their level of inflation. In Argentina inflation ran at an annual rate of 778 per cent in January, in Brazil it was close to 300 per cent and even in Mexico it fell last year to only about 60 per cent compared with a target of 40 per cent.

What now seems to be emerging is a situation in which the spotlight has shifted away from the financial plane and onto the more general debate about the degree to which the IMF can continue to demand economic austerity of the debtors. In short, the debt crisis has become less of a banking issue and more of a

political one.

Bank creditors can do little more than stand idly by and hope for the best when, and the IMF suspends its loan programme to Brazil. For the most part commercial bank rescheduling arrangements have worked reasonably well. There have been problems in drafting the legal contract for some of the new mega-rescheduling deals, particularly with the increasingly common clauses allowing non-U.S. creditors to switch their loans into currencies other than the dollar. The banking systems, however, have shown itself surprisingly willing to provide new credit to those countries that still need it.

But this willingness could be undermined if friction between the IMF and the major debtors became more explicit. Already some smaller countries without much leverage on the banking system have found the going harder.

Major commercial bank reschedulings

	Amount (\$bn)	Years covered	Maturity (years)	Interest New credit (\$m)
Argentina	16	1983-85	12	11
Brazil*	45.3	1985-91	16	11
Ecuador	4.3	1985-89	12	11
Mexico	48.7	1985-90	14	11
Philippines	5.8	1983-86	10	11
Venezuela	20.75	1983-88	12	11
Yugoslavia	3.5	1985-88	under negotiation	—

* Brazil figures not yet confirmed. Discussions also still pending for Peru, Chile and Uruguay. † Average margin where applicable.

It has taken longer than expected to raise new credits of \$75m and \$200m respectively for Costa Rica and Ecuador. And a major test looms in the case of Chile, which could be seeking a loan as large as \$1bn to meet its foreign finance needs for 1985.

Much therefore still depends on the degree to which a confrontation between debtor and creditor governments can be avoided. A lot of factors come into play besides the political determination of the debtors to continue adjusting their econ-

omies. Will growth in the industrial world remain robust enough for the debtors to increase their exports further? Can protectionism be resisted? Will interest rates rise again, adding to the burden of debt service? And can alternative forms of non-bank credit be found to finance recovery of the debtor economies?

Many uncertainties thus remain. It will be some years yet before any but the most blinkered optimist can claim with conviction that the debt crisis is really over.

City revolution to draw in foreign business

London

DAVID LASCELLES

THE UK Government has backed the huge changes that have been reshaping the City in the past 18 months because it wants more competition in Britain's rather protected—even quaint—domestic financial markets. But Mrs Thatcher's administration has also made no secret of the fact that it is encouraging greater openness to ensure London's place as the premier financial centre of Europe.

Not that that place was in doubt: there are now some 400 foreign banks in London, with more arriving all the time, and the City has been home to the Euromarkets for years. But as the global banking market settles down into three time zones, based on the Far East, Europe and New York, the Tory Government is determined to use every opportunity to draw business to London.

This means that while the structural changes are actually taking place in the domestic markets, like the Stock Exchange and the gilt-edged or

Treasury bond market, the Government has been careful to create a tax and regulatory regime that also makes London an attractive place for foreign institutions.

Judging by the rush of Europeans and Americans to invest in City firms recently, the policy is working. At the latest count, more than a dozen foreign commercial or investment banks, were on their way to becoming members of the Stock Exchange or dealers in the gilt market, or both.

The upheaval dates back to 1983 when the Stock Exchange agreed to end its decades old system of fixed commissions to avoid a restrictive practices action by the Government. This quickly led to other historic changes, notably decisions to throw the Exchange open to much wider membership, and to end the practice of "single capacity", the strict separation of the broking and market-making functions on the Exchange.

At the same time, the Bank of England (which supported the idea of the opportunity to reshape the gilt-edged market which—unlike Wall Street—was part of the Stock Exchange. Last year, the Bank came out with proposals to create a U.S.-style

system of primary dealers who will have special access to the Bank in return for committing themselves to making markets in Government stock.

The Bank is also allowing banks to take a direct stake in the discount market—the highly sensitive money markets through which it deals with the UK banking system. This market has traditionally been the preserve of the independent discount houses. Ironically, though, the first bank to take advantage of this new opening was not British but Citicorp of New York when it bought a discount house, Seacombe, Marshall & Campion in February.

The result of all these changes (some of which—like opening up the Exchange—will not actually take effect until next year) is that financial institutions can for the first time in the UK assemble under one roof virtually all the functions of the financial markets: banking, broking, market-making, underwriting and bill discounting. Hence the great rush of mergers or takeovers.

In the past year or so, all the largest jobbing (market-making) firms have been bought out by banks. So have all but one of the largest 20 stockbrokers. (At the moment,

outsiders can only buy 29.9 per cent of them, but this has been enough to seal deals which will take ownership to 100 per cent when Stock Exchange rules are changed next year.) After the Seacombe deal, more discount houses could join this list.

These firms are now being moulded into new conglomerates. One of the most ambitious is being put together by S. G. Warburg, the merchant bank, which is forging alliances with not one but three other firms (two stockbrokers and a jobber) to make what Mr David Scholey, Warburg's chairman, claims will be a world scale investment bank. Similar groups are being created by Barclays Bank and by National Westminster Bank, its merchant banking arm.

Citicorp, Chase Manhattan, Security Pacific, Union Bank of Switzerland and Hongkong Bank are among the groups from overseas which have also made acquisitions.

But whether or not they have actually bought securities firms, virtually all commercial and merchant banks in London are now building up staff and capacity to deal in securities in anticipation of "Big Bang," the as-yet unnamed date next year when liberalisation will take place.

The rationale behind all these deals is that the successful financial institution of the future will have to be able to deal directly in all the world's major capital markets, not just to match the bank lending to security issuing but to handle clients' investment needs.

Mr Charles Villiers, chairman of County Bank, notes that NatWest, the biggest UK bank in market capitalisation terms, should be a major player in the domestic UK markets. However, County is taking a cautious line, going for what Mr Villiers describes as the "minimum critical mass" necessary to participate in the markets, rather than building a large group like Barclays or Warburg.

For the U.S. banks, there is the extra appeal of being allowed into equity markets which are barred to them at home by U.S. bank law.

But while unleashing these changes, the UK Government has also had to consider how to regulate the new financial conglomerates that are emerging. The suddenness of

the upheaval, along with the clear conflicts of interest that exist within many of the groups (who will be able to act as investors, brokers and market-makers simultaneously) have triggered concern about investor protection.

Mr Norman Tebbit, Secretary for Trade and Industry, has resisted calls for tight controls by proposing that the City regulate itself through Government-approved bodies. The scheme has been welcomed by the City, though what it really is a challenge to the City to prove that it can behave itself, because the alternative—something like the Securities and Exchange Commission of the U.S.—is only too plain.

The reduction in Stamp Duty for share transactions and cuts in corporation tax also help create a more attractive business climate. When Citicorp of Switzerland, one of the largest UK banks, it specifically cited the lighter tax and regulatory environment of London as the reason why it was shifting business out of Zurich.

However, while the intense



activity conveys a strong impression of change, it is worth remembering that little has actually happened yet. The new structures are being created, the alliances formed. No one, though, can claim that the new system will work or that the new conglomerates will operate profitably and in harmony.

Many sceptics are predicting that the whole exercise could "end in tears" as bankers, brokers and jobbers find they

cannot work together. The sudden inflow of new capital will increase the trading base in markets like gilts by five or even tenfold, creating intense competition which is certain to bring heavy losses for some groups. Whether or not these fears are justified, the answers will not come for a long time, and certainly not before "Big Bang," which, at the latest estimate, will be towards the end of next year.

Pace of reform in question

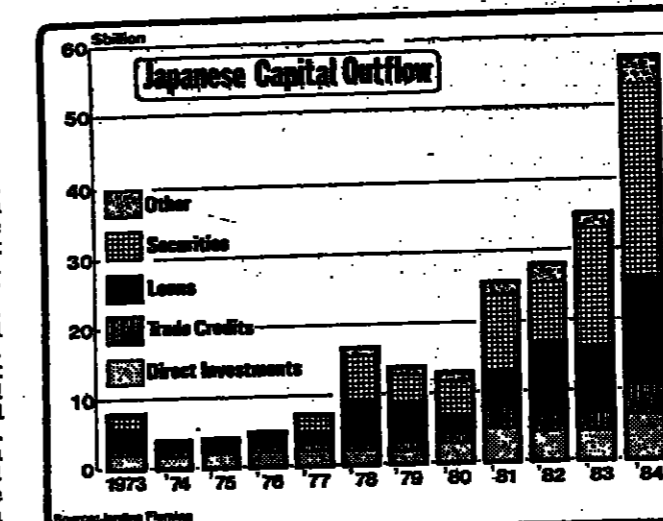
Tokyo

JUREK MARTIN

MOST foreigners in the financial field would like Tokyo to join London and New York as one of the three great global market places. They think it would be good for them, in that they would be able to handle even more of Japan's vast capital resources, and argue it would be good for Japan, too, if it ever intends to pull its full weight in the international financial and commercial world.

Most Japanese who count in government and in the financial community, do not dispute the logic. What they quarrel with is the pace and means by which Japan attains the ultimate goal. A segmented and regulated financial regime is not susceptible to rapid and wholesale reform along British or American lines, they argue. More privately, they will concede that there are parts of the Japanese financial community which are not yet ready to survive in a free, competitive climate against the likes of the more efficient domestic institutions or those from outside Japan. And that is the nub of the current debate over financial liberalisation.

Nowhere is the dichotomy more apparent at present than in the plans to allow foreign participation in the Japanese pension fund business. Japan does not dispute that its society, rapidly ageing, needs better managed pension funds than the eight domestic trust banks and a separate coterie of life insurance companies have proven capable of providing. The expertise to manage this ¥85 trillion (million million) pool certainly exists outside Japan. Yet, when, some time this Spring, the Ministry of Finance



announces the list of foreign institutions authorised to do trust management in Japan it will stop at the matching number of eight; and as the foreign institutions delve more deeply into the sort of regime the authorities have in mind it is becoming increasingly obvious that they are scaling down hopes of capturing anything larger than a modest slice of this vast pie—for the very basic reason that Japan is not about to allow any of its domestic institutions to go precipitately or unceremoniously to the wall. Domestic mergers and other "arrangements" may in time ensue, but not overnight.

Major force It is one of the supreme ironies of the current situation that, while the Japanese domestic capital markets remain relatively restricted, Japanese funds are already a major force globally. The long-term net capital outflow from Japan last year amounted to a fraction under U.S.\$ 50bn, a record and com-

fortably in excess of the \$36bn surplus on current account. Japan has become the world's largest creditor nation and the great proportion of its external capital investment has been in the U.S. Intriguingly, the principal growth in the capital outflow has been accounted for by corporate treasurers.

That corporations have been looking at foreign securities purchases stems from two factors; the cash "elephantiasis" now affecting so many successful Japanese companies and the lack of investment opportunities in Japan itself, both in its capital markets and in its industrial infrastructure.

It would be an exaggeration to suggest that Japan has been afflicted by under-investment in plant and equipment: the current wave of technological change has, in any case, ensured that this increase has remained respectable, in the ten per cent a year range.

But there is a growing consensus that Government caution has left the investment climate less than optimal—and

has thus contributed to the flight of capital to where the grass—and the dollar—is greener.

This is not all bad news from the perspective of the foreign financial institution, which may do better than managing Japanese external investments than from competing, in a regulated and traditional environment, with domestic concerns.

The problem is that outflows may be reversed, either by direction of the Japanese Government, to whom the value of the yen is always a concern, or by a change in external circumstances, above all in the U.S., over which the Japanese authorities have far less influence.

Yes, foreign fund managers are also in the business of investment inside Japan. Whereas roughly half of all Japanese capital investments outside Japan are in securities, the ratio for foreign investors in Japan rises to close to 100 per cent. The lack of alternative investment instruments to securities in Japan is itself another testament to existing Japanese rigidities, and though foreigners constitute an important element of trading on the Tokyo Stock Exchange none of them would dream of suggesting that they are members in spirit or stature, of that particular club.

Barriers

After all, on Christmas Eve no less, the Japanese brokerage hierarchy carried out a singular opportunity to admit Merrill Lynch to membership of the Tokyo Stock Exchange. Some other institutional barriers are being broken down, including, for example, foreign participation in Government bond syndicates and, significantly, in increased foreign roles in external underwriting of European issues.

But this market is, again predictably, taking time to develop and is itself still subject to Government interpretation.

Other potentially important changes on the stocks for this year run to the introduction of a banker's acceptance market, denominated in yen, for trade finance, and the more imminent introduction of money market certificates.

As with trust banking, the fine print regulations will be critical. It is not beyond the realms of possibility that the Tokyo Stock Exchange itself will come up with a formula giving interested foreign firms some form of associated membership, though whether it proves worth the price of admission is another matter.

To summarise an immensely complex scene is not easy. In general the Japanese liberalisation evolution is proceeding apace, some areas faster than others. Foreign interest is unabated. A year, and possibly ten years, from now, the same conclusion may be in order.

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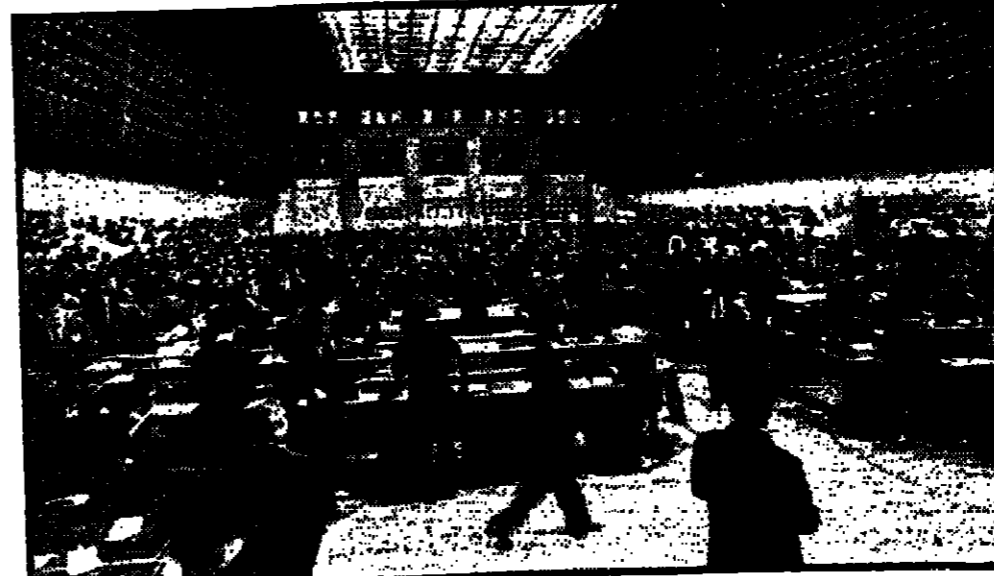
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The Tokyo Stock Exchange: foreign traders still outside the club

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The partnership at work. From left: Jack Pope, American Airlines Senior VP and Treasurer; Bob Lewis, Chase Corporate Banking; and Tom Fiorito, Chase Capital Markets.

The Chase Partnership.

Investment and aerospace bankers working with American Airlines to meet their changing treasury needs.

Working from our unique depth of knowledge of the airline industry, Chase Investment Bankers and Relationship Managers combine capabilities for innovative financial structuring, accessing new sources of funds as well as sophisticated assessment of risk—all within one organization. The result of this close collaboration: expeditious, effective financing solutions for our corporate customers worldwide.

The Chase Partnership



Global Network

Industry Understanding
Treasury Expertise

Investment Banking
People

International Capital Markets 6

A challenge to London's crown

New York

PAUL TAYLOR

NEW YORK is challenging London as the financial capital of the world, buoyed by the momentum of the U.S. economy, far-reaching financial deregulation and imaginative innovations. Indeed, some people, particularly New Yorkers themselves — believe that New York has already stolen the crown as the main centre of international capital.

Virtually no sector of the U.S. capital markets has been left untouched by the changes which have swept through the financial system. Among the Wall Street securities groups the pressures of competition have forced a further realignment of the firms themselves.

The past 12 months has seen three more Wall Street mergers, Lehman with Shearson; American Express, Donaldson, Lufkin and Jenrette with Equitable Life; and the bulk of Becker-Paribas with Merrill Lynch.

The continued processes of consolidation reflects a wide range of factors including the pressures imposed by new ways of doing business on Wall Street — such as the expanded need to put capital at risk as a result of the rule 415 Shelf registration procedure — the desire of most firms to broaden their investment banking business and, in the case of Equitable Life, the continued integration of the U.S. financial services industry.

At the same time, senior management changes have recently taken place at firms like Merrill Lynch, Goldman Sachs and

Phibro Salomon. In some Wall Street firms, major reorganisations are under way in order to cut costs and improve profitability in an increasingly competitive market place — a market place where the lines between commercial and investment banking are becoming increasingly blurred.

It is probably too soon to judge whether the new programme is a real success. Most recently the Treasury copied the huge success on Wall Street of certificates representing repackaged zero-coupon government bonds issued by firms like Merrill Lynch and Salomon Brothers as "tigers" and "cats."

Over the past three years the markets have swallowed some \$40bn in government paper repackaged in this way. Last month the Treasury launched its own programme formally facilitating the stripping of government paper under a scheme called "strips" which allows for the separate trading of the coupons and principal of designated issues. In the event, however, the market turned sour ahead of the auction and the issues were anything but a blinding success.

Despite this, many on Wall Street believe the introduction of the strips programme could still lead to further changes in the products offered by Wall Street and in the composition of investors in the capital markets.

Outside the bond markets the equity market is also undergoing structural and other changes. Last year the longer-term attractions and the importance of the U.S. equity markets — despite the lacklustre performance of the Dow Jones and other major indices were highlighted by the string of foreign American Depository Receipts

(ADR) offerings in the U.S., including the global Reuters and big British Telecom issues.

In the meantime, the rapid growth of the over-the-counter markets and off-floor trading coupled with other factors like the speed of technological advance and the increased internationalisation of trading are forcing the New York Stock Exchange to reconsider some of its traditional practices.

Among the changes under consideration at the NYSE are an extension of trading hours, link-ups with other exchanges including the Pacific Exchange, and liberalised rules on the classes of stock quoted on the exchange. In addition, the NYSE and other exchanges have already begun introducing electronic trading systems which automate further the trading system.

DEVELOPMENTS IN NEW YORK PAGE 12

The range of products offered by the New York and other exchanges is also expanding rapidly. In the wake of the success of stock options, exchanges in New York, Chicago, Philadelphia and elsewhere have introduced a wide range of new financial instruments, including financial futures, stock index options and currency options.

Some of these new instruments are among the fastest growing "hot new products." For example, trading in the Chicago Board Option's Exchange's S and P 100 stock index option grew fourfold to 250,000 contracts a day last year. The recent boom in merger activity and leveraged buy-outs has helped hasten the attack on the remaining barriers while some commercial banks like

Citicorp, with its push into the brokerage business, and Bankers Trust, with its assault on the commercial paper market, have added to the pressure by challenging the remaining rules head-on.

Aside from the continuing structural changes in the U.S. capital markets, competition and innovation have heralded a wide range of new products and services.

Some of these new services, such as complex interest rate swaps, are designed to exploit differences between global capital markets — or individual borrowers access to these markets. About \$70bn of interest rate swaps are estimated to be outstanding with \$40bn to \$50bn of them arranged last year.

In an effort to standardise this booming new market a group of commercial banks and investment banks recently proposed setting up an international interest rate swap industry association.

Meanwhile, the Treasury, burdened with the task of financing the mushrooming \$200bn-a-year Federal Budget deficit, has begun creating new classes of securities with a series of steps designed to cut the cost of its funding.

Beginning last year the 30 per cent withholding tax on interest paid to foreign investors on U.S. securities was repealed. In its wake U.S. companies have been able to issue bearer bonds directly from the U.S. rather than through offshore subsidiaries while the Treasury introduced new "special registered" targeted government issues — sold to foreign investors only — in semi bearer form.

The first "add-on" issue of "special registered" U.S. Treasury notes — a 1bn offering

of three-year 11-month notes last October — was very well received with bids totalling \$4bn and the average yield some 30 basis points below the equivalent on the U.S. domestic portion of the offering. The Treasury estimate that the special registered offering saved it about \$3.2m in annual interest costs.

The traditional commodity exchanges have also begun to adapt to the new order. Among them the New York Comex has expanded its range of option futures adding options on silver futures most recently while the New York Cotton Exchange plans to trade a U.S. dollar index futures contract and the sugar, coffee and cocoa exchange is waiting approval for a contract based on the consumer price index.

Meanwhile the commercial banks are also pushing aggressively into new markets — both domestically and abroad — while expanding their existing role in established businesses. For example the volume of foreign exchange trading in New York is continuing to grow reaching around \$33bn a day recently. To come with this substantial increase in volume the major U.S. banks are investing heavily in new dealing rooms — many with the capacity to deal on a 24-hour basis.

Highlighting the growing internationalisation of the markets — and of the institutional funds which flow through them — the Wall Street firms and commercial banks are expanding their presence in key overseas markets. One signal of the likely shape of things to come is the U.S. commercial banks push into the UK in advance of the radical reorganisation of the UK markets.

Explosive growth and increasing diversity

Floating-Rate Eurodollar Bonds

MAGGIE URRY

THE Eurodollar floating rate note market looks set to continue both an explosive growth rate and an increasing diversity of instruments.

New issue volume doubled in 1984 to \$28.5bn, for the first time exceeding the total value of fixed rate Eurodollar bond issues. Already this year a large number of deals have been launched, often at times when the fixed rate market was virtually closed.

FRNs have proved popular investments where protection of capital is required. Because the interest rate is re-fixed regularly — usually every three or six months — volatile interest rates are not a threat to the bonds' capital value. At each coupon re-fixing the price of the bonds approximates to par as market rates are used to set the new coupon.

As a result the vast majority of FRNs are bought by banks anxious to lock into assets with a yield higher than, and calculated in the same way as, their cost of funds in the money markets. FRNs have generally had their coupon set in terms of a percentage margin over London interbank offered rate (Libor), the rate at which the banks lend to one another.

The banks' need to buy assets such as FRNs, where the credit risk is usually good, is increasing as other lending becomes more and more problematical. The demand for this paper has, therefore, been strong enough not only to attract more borrowers to the market, but also to drive down the cost of borrowing until now margins are wafer thin.

Many borrowers have found the FRN market a much cheaper place to borrow than the syndicated credit market and have used FRN issues to repay their loans early. This has added to the banks' demand for floaters by taking other loans off their books.

The process has gone so far now that many major borrowers have repaid older FRN issues early by tapping the market for even cheaper floating rate money as the cost of borrowing has tumbled. The accompanying table shows how the market has expanded, with issue numbers and almost halving while the average margin over Libor has fallen.

The average life of issues has increased in recent years, partly as a result of the first issues of perpetual floaters. This was started last April by National Westminster Bank when it launched a \$500m deal. Since then a number of further

Market Trends in Eurodollar FRNs.										
	1978	1979	1980	1981	1982	1983	1984*			
Number of issues	27	56	45	65	81	60	145			
Average basic margin over Libor (basis points)	3.9	3.1	2.4	2.7	2.5	1.6	2.4			
Average maturity (years)	2.7	2.7	3.0	3.5	3.6	3.2	3.4			
Average issue size (U.S.\$m)	53	57	74	90	129	170	189			

* January to November

Source: Merrill Lynch.

issues have been made with no final maturity. The borrower reserves the right to repay the principal early, but the lenders may not have a put option.

This has deterred some investors who necessarily have a shorter time horizon from buying these issues. But the ingenuity of bankers quickly circumvented this problem. Morgan Guaranty devised an issue for Sweden — launched in June last year — where the investor can switch from the regular bond of a fourth-year floater paying a lower rate of interest. The investor can also switch back into the perpetual issue. This structure, which became known as the "flip flopper" option, soon became almost standard on perpetual deals.

Lower margins

The declining margins over Libor available to investors in FRNs — which have fallen to only a few basis points for top quality borrowers — has also required some ingenuity for the banks which structure the deals. A popular format during times when the yield curve is steeply rising is the "mis-match" floater.

This sets the interest rate using a three-month or six-month benchmark — but the level is re-fixed every month. It allows investors to fund their holdings of FRNs by borrowing in the money markets at the monthly rate.

This would normally result in a mis-matching of the investor's assets and liabilities, which can be very risky if interest rates are volatile. But with the mis-match floater as long as the whole yield structure moves up and down together, rather than the yield curve changing shape, the danger is averted.

If six-month or three-month rates are much higher than one month rates an investor can pick up more yield than it could by buying standard FRNs. The investor does suffer the continuing effect of borrowing monthly though. The danger arises if the yield curve flattens or even changes to slope downwards so that one-month money is more expensive than three or six-month funds.

The borrower benefits by being able to borrow yet more cheaply with the best credits able to fund below Libor. These fine borrowing costs are still related to the banking bench-

marks though, and some borrowers particularly sovereign and supranational names have become better credit risks than even the best banks.

As a result there have been a few recent floating rate issues whose coupons are set at a margin over U.S. Treasury bills. Treasury bill rate reflecting the credit standing of the U.S. is generally well below Libor — making the funding even cheaper for borrowers. However, there is a much more realistic bond of investors in such issues.

There is a limit to the amount that banks can lend at a yield lower than their own marginal cost of money.

The T Bill based issues are expected to appeal mainly to investors who normally buy T Bills themselves, such as central banks, investment institutions and cash-rich companies. Such is the investment skill in developing and refining new concepts that a recent issue for Swedish Export Credit, led by Merrill Lynch, adopted both the T Bill pricing and the mis-match formula.

Floaters have even been auctioned to investors in a manner similar to the U.S. Treasury's regular bond auctions. Last October and November Morgan Guaranty sold two issues for Sweden, totalling \$1.2bn through a tender sale, with a resulting very low borrowing cost for that country.

While banks remain the typical buyers of FRNs, with the assistance of Japanese banks the most significant force in the market, they are also major borrowers. In that sense the FRN market supplements the normal interbank money market and banks establish a credit line for the borrower before buying an FRN.

Sovereign names are the other major category of borrowers in the market, with combined bank and sovereign issues making up between 80 and 90 per cent of the total amount raised. Trends in the floater market may not continue unchecked. But with the exchange rate, a less important consideration for investors — who will continue to do business in dollars — and the volatility of interest rates the market's raison d'être, any threat to the market's continued growth must come from changes in the major players' ways of doing business and their credit standing.

Expansion of product range

Futures

ALEXANDER NICOLL

MANY PROFESSIONAL portfolio managers may still be nervous of taking the plunge into financial futures. While they hold back, the burgeoning options market is offering a bewitching range of tools both to them and to corporate treasurers.

Trading in financial futures on the dominant U.S. exchanges has grown rapidly at the expense of traditional commodity contracts. The markets have tended to be used mostly, however, by major financial institutions, such as the big commercial and investment banks, who use futures as a hedge against their huge position-taking in cash markets.

U.S. Treasury bond, Eurodollar and stock index futures have fuelled recent expansion in Chicago, while in Britain the London International Financial Futures Exchange has seen steady volume growth in its U.S. Treasury bond, Eurodollar, UK gilt-edged and three-month sterling contracts.

To some extent, economic developments of the past few years have reduced the need which originally drove investors into futures markets. Inflation has dropped and the dollar has been strong, so the need to protect the value of many holdings has diminished.

Extraordinary volatility has persisted, however, in interest rates as well as in short-term currency movements. This explains the growing popularity of "derivative" financial products — futures, options, swaps and others.

The return to favour of equities over the past few years has also prompted the growth of index futures, enabling investors to protect themselves from a sudden decline or to enhance profits from a market upturn.

The disappearance of a number of futures brokers last year highlights one of the market's major problems: although the big contracts are extremely liquid, they are dominated by big institutional users and by Chicago "locals" individuals who trade on their own account.

The average money manager, whether fund manager or company treasurer, remains either uneducated or unconvinced about the advantages of futures.

To counter this problem, a small group of market participants and portfolio managers in London have recently got together to form the Options & Futures Society, a "user group" designed to foster both understanding or, and debate about, the markets.

Though London-based, the society is intended to be international and has the endorsement of U.S. exchanges as well as of the London Stock Exchange, Life and the International Commodities Clearing House.

Mr Nic Stuchfield, a partner in stockbrokers Wedd Durbin, says the society's name was simply to get a better acronym (IOFS), but there is no doubt that the greatest hope for arousing more interest in the markets lies in options.

Last year, volume in options on Treasury bond futures contracts rose to 6.6m on the Chicago Board of Trade, four times the business done in 1983 and 56 times 1982 volume. (An option confers the right, but not the obligation, to buy or sell the underlying item, be it a futures contract, an equity, or something else, at some point in the future.)

Again, options on futures contracts may appeal most to the same big institutions who are active in the cash U.S. government bond market and T-bond futures.

But they can also offer a cheap hedge against interest rate movements in general — the price paid for an option is the limit of the buyer's potential loss, whereas the potential for loss through incautious use of futures is much larger.

Options have also been developed on stock index futures, though these have yet to command a big market.

At the same time, the traded equity options market in London, which has been struggling for years to win greater attention, has taken off in the past

few months following the introduction of successful options on British Telecom and Jaguar Shares. London also has its own stock index future, Life's FT-SE 100 index.

Of more appeal to corporate treasurers as opposed to professional investors are currency options traded on the Philadelphia Stock Exchange and also offered on a custom-made basis by leading international banks.

Companies can use options — or futures, or a combination of both — to minimise the risk from currency exposure arising out of specific transactions and contracts. The growing Philadelphia market offers the advantage of tradability and market-set, visible pricing.

But contracts are naturally in specific amounts and for fairly short periods which may not conform with an individual company's needs.

Tailor made

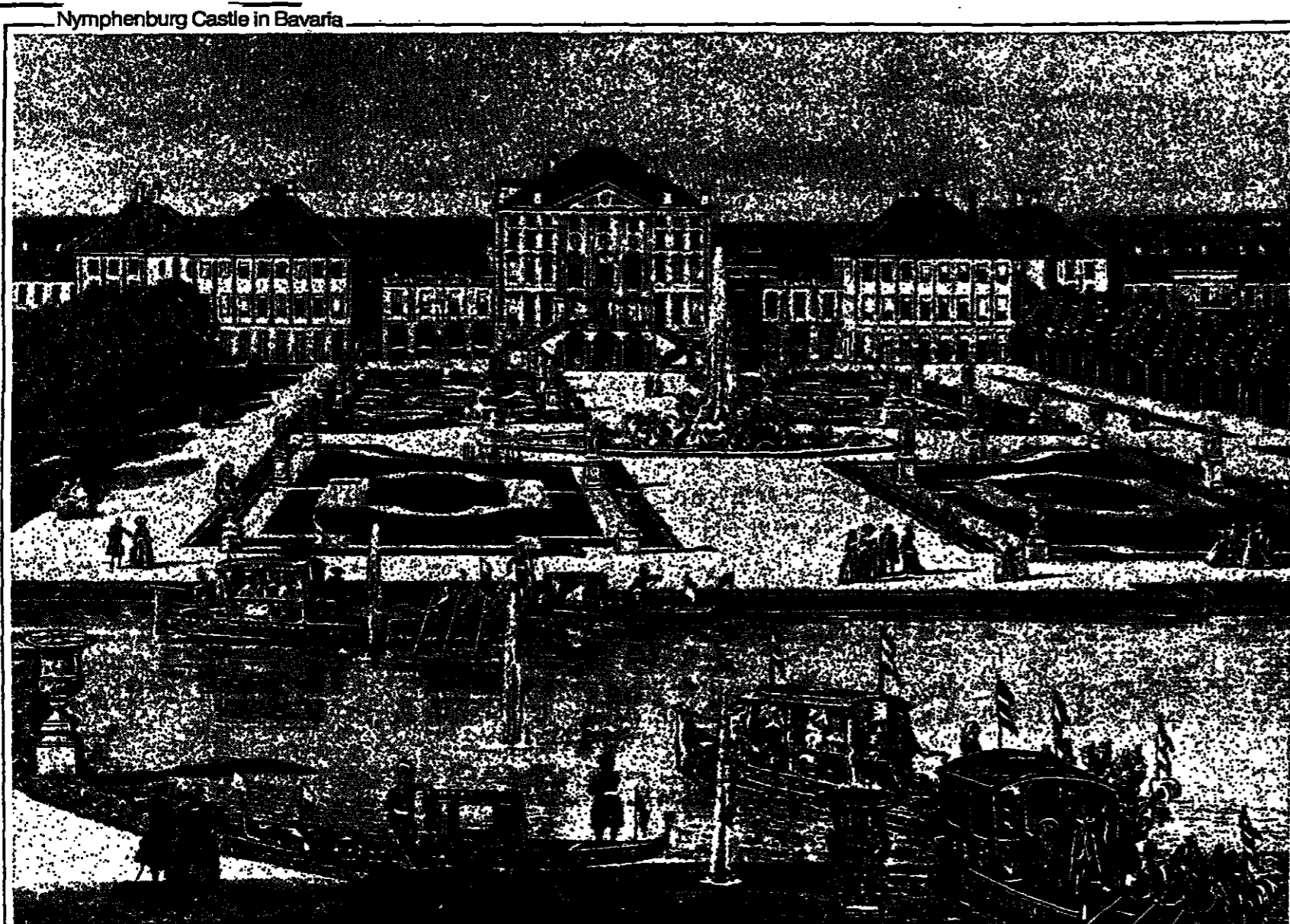
Banks, therefore, write options on the so-called over-the-counter market, in which options are tailor-made for customer requirements but cannot be traded or, probably, efficiently priced. They have been attempting to standardise options trade so that they are not forced to offset their own options risks on the U.S. exchanges.

This could eventually form part of growing options trade in London, where there is hot competition to develop new options products between Life and the Stock Exchange.

Greater futures and options volume in London should be aided not only by more education and marketing, but also by tougher investor protection which should result from changes in the City's structure.

Market participants have formed the Association of Futures Brokers and Dealers, which is now getting under way and is expected to have broad powers.

There is no doubt that the range of products on offer will continue to expand quickly, major market for which there is no precise hedge is Eurobonds, headed through the U.S. T-bond market. Life has tried to come up with a Eurobond futures contract, but the derivatives Eurobonds has so far made it impracticable.



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International Capital Markets 8

Reinforcing securitisation trend

Euronotes

PETER MONTAGNON

LITTLE has done more to transform the face of the Euronote market over the past year than the sudden and explosive growth of a new form of borrowing technique—the Euronote issuance facility.

According to the banking magazine *Euromoney*, funds raised by this new medium jumped to US\$17.4bn last year from only \$3.5bn in 1983. And in the first month of 1985 business continued apace, with the launch of new facilities totalling no less than \$3.8bn.

For top-rated borrowers such as Sweden and the Swiss food giant Nestlé, and even for some less-favoured names such as the Korea Exchange Bank, the new technique has opened the door to borrowing at costs close to or even below bank deposit rates. This would have been undreamt of just a couple of years ago.

For the market as a whole the growth in Euronote business has reinforced the trend towards what professionals call the securitisation of international debt. This means the issue of debt can be traded among investors like a bond, rather than being left to moulder on the balance sheet of one single bank until maturity.

But despite their rapid rise in popularity, Euronotes are still the subject of intense emotional debate within the banking community. Part of the reason for this is that

the market is still very much in its formative stage.

This has led to a welter of variations in the way in which the mechanism is structured and that in turn has made it all the harder to understand and evaluate.

In the background are frequently expressed fears of big commercial banks that the new mechanism could squeeze them out of the international growth business, much as the growth of the commercial paper market in the U.S. has deprived banks there of the chance of doing loan business with top-rated corporate customers.

The principle on which the Euronote market operates is now, however, perfectly clear. It involves an ingenious reallocation of roles within the international capital market, the effect of which is to allow borrowers to raise what is effectively medium-term, say five or seven year, money at the very low rates available only in the short-term money market where maturities rarely exceed three or six months.

A borrower who raises money in the Euronote market does so by the issue of short-term notes that are negotiable like certificates of deposit and can supposedly be placed with non-bank investors such as central banks and corporate treasurers.

As one issue of notes matures after three or six months he issues some more so that while the holders of the debt change over time the total outstanding in the market can be maintained in the medium term.

But such a borrower also needs to be sure that he will always be able to find buyers

for his notes in the marketplace. If he could not do so he might find he had to pay down his debt earlier than expected. For that purpose a Euronote facility is normally backed up or underwritten by a group of commercial banks which stand ready to buy the paper at a specified price or to provide credit in a period when the appetite of short-term investors wanes.

The traditional function of commercial banks, which was to lend money over the medium term, has thus been split in two. Instead of lending money, commercial banks simply commit their resources to guaranteeing that it will be available over the medium-term. The actual funds are provided elsewhere in the market, theoretically from non-bank investors looking for a short-term home for their surplus cash.

Within this basic structure, however, controversy still rages about how Euronote facilities should work in detail. Above all this relates to the way in which the notes should actually be placed in the market.

Merrill Lynch, the U.S. investment bank, which has been one of the main pioneers of the new facility, argued from the outset that it, as lead manager or arranger, should have the sole right to place the paper in the market.

The advantage was that one house with an established position in the short-term securities market would be able to keep better control of an issue, secure a fair price for the borrower and preserve a smooth secondary market in the paper.

But this approach alienated potential underwriters who saw that Merrill was able to cream

off additional profit in the securities market while all they were offered was a relatively paltry annual fee—it now stands typically at 10 basis points—for backing up the facility.

The emphasis thus switched to a tender panel system whereby borrowers formed a group of banks willing to bid for the notes each time they were issued.

The object was to broaden the distribution of the paper, obtain a more competitive price for the borrower and allow underwriters a stab at the placing business from which they could earn profits to add to their participation fees.

The problem with this system as it turned out is that tender panels could still be dominated by strong investment banks which would outbid weaker members, scoop up all the paper and thus still deprive many participants of the chance to earn placement profits.

Some therefore began to demand what is called in the trade "protection," which means that they would be guaranteed a certain amount of paper at a specified price at each auction of notes.

The chances of making additional profit on the sale of such paper may help attract more banks into note facilities as underwriters, but it can distort the secondary market price of the paper if these banks find it hard to place and dump it in the market.

All this has led to a plethora of different types of facility as lead managers seek to perfect the ultimate Euronote deal. To secure its place in the history books each one tends to be identified by its own acronym, so that the market has been assaulted by a battery of GUNS, SNIFS, RUFFS, NIFS and even BONUS.

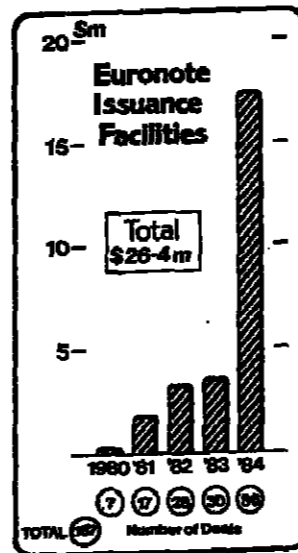
For most ordinary bankers that list is just about as confusing as it sounds. What many argue is now needed is some form of standardisation so that it will again be possible to differentiate clearly between individual credit risks in the market.

Without that it is very difficult for would-be participants to assess either the risk or the reward of the business they are entering into.

One step which would help in this respect would be the rating of Euronotes in the same way as commercial paper is rated in the U.S.

Standard and Poor's, the U.S. rating agency, has said it plans to devise such ratings, but so far it has not done so. If it did, as it would be easier to gauge the right trading level for different types of note in the secondary market.

That might encourage more non-bank investors to enter the market. For one drawback to the Euronote market that has not so far been overcome is that most of the notes still end up



being placed with other banks rather than the range of investors to which they are targeted.

Moreover, only about \$5bn in notes has been issued out of an outstanding potential volume of some \$35bn. A broader investor base is needed for the market to mature.

Separately another threat looms over the market in the form of possible regulation by central banks which have looked askance at its development.

Many place restrictions on the issue of note facilities in their own currencies with the result that the dollar and the pound are the only currencies in which Euronote facilities can be arranged.

What worries the central banks most is that underwriting banks are now carrying huge contingencies to provide money if the note sales fail. But they do not necessarily have adequate capital backing. It is precisely because the banks could be called upon to exercise their underwriting commitment at a time of world financial crisis that capital requirements are regarded as so important.

The Bank of England, Federal Reserve and other central banks are therefore looking at ways in which banks could be made to protect themselves against this, by the imposition of capital ratios to Euronote business.

When and if it happens that would have the effect of pushing up the commitment fees charged by banks for their underwriting role. Some borrowers might be squeezed out of the market altogether because it would again become economic for them to raise money in the Eurocredit market and, at the very least, the larger costs of the market would be easier to differentiate between risks.

But few bankers now believe that even tough regulation would kill the Euronote market. It has come too far over the past year for that, even if it still has a long way to go to reach maturity.

Decline to a role of speciality product

Syndicated Loans

PETER MONTAGNON

ACCORDING to Morgan Guaranty Trust, the U.S. bank, the volume of new business in the syndicated loan market jumped from only US\$7.42bn in 1983 to \$106.3bn last year.

That should have left bankers growing with satisfaction about another boom year. Instead they have rarely been more gloomy about the future of international bank lending. For the truth is that the figures distort the actual trend in market activity. As far as traditional syndicated loans are concerned volume appears to be stagnating or falling.

Indeed, the syndicated credit, which was once the main vehicle for large scale international borrowing and lending, now seems to have taken on the role of a speciality product for a market in which other instruments such as floating rate notes and the new-fangled Euronote facilities have come rapidly to the fore.

If volume did grow last year this was largely because in the early months of 1984 several exceptionally large credits were arranged in connection with oil company takeovers in the U.S. That was clearly a chance occurrence. It speaks more of the oil industry and the U.S. equity market than state of the credit market itself.

For top-rated borrowers in Europe, syndicated loans have lost much of their appeal because they are more expensive than new forms of borrowing. They are also less flexible, particularly compared with Euronotes which allow a borrower to draw just as much cash as he needs at any one time.

At the other end of the credit spectrum the market is still hampered by the loss of creditworthiness of former large customers in Latin America. These could once be relied on to take tens of billions of dollars in new loans each year.

As a result the syndicated loan is an instrument that has generally retained its relevance only for a rather narrow band of intermediate credit risks which still have appeal to bank lenders but not necessarily qualify for bank market finance.

Some of these borrowers have also taken a deliberate policy decision not to avail themselves of cheap Euronote facilities. East European names have been the way in which the availability of cheaper forms of credit has encouraged many borrowers to repay their existing debt and replace it with lower cost borrowing. Last year Sweden and Den-

mark both started to do this in a systematic fashion. Other countries which have also been reorganising previous debt include Ireland, Italy, Belgium, France and Canada, while last year Finland decided simply to cancel all its \$1.5bn in outstanding standby credit lines from commercial banks.

In the process banks are finding that older loans either disappear from their books or have been replaced with new loans bearing much lower margins than before. That has put earnings from syndicated loans under pressure and many banks are reorganising their capital markets activities as a result.

Nowadays it is less common to find a syndicated loan department as a separate part of a major international bank and more common to find syndicated loan specialists operating as part of an integrated capital markets team offering a wide range of products.

This is an important structural change. It means that lenders are adapting to an era in which the syndicated loan no longer holds sway. As a result there is less chance that syndicated lending will ever regain its once coveted prominence in the capital markets.

That could happen if a strong recovery in loan demand could not be met elsewhere, or, for example, if central banks decided to impose such draconian regulations on the Euronote market that it was no longer cost-effective. For the time being the former possibility looks remote. As for the latter, central banks are looking at this Euronote market but are being remarkably slow to move.

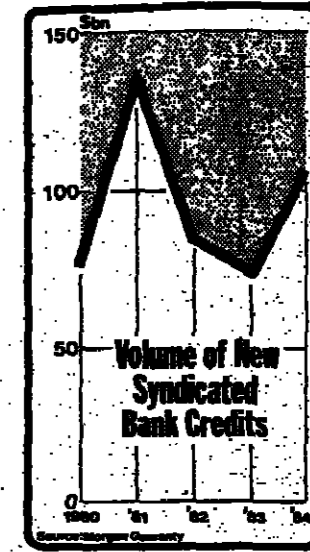
At the moment, therefore, no one is betting on a recovery in the syndicated loan market, for this year at least.

Other borrowers which also still feature in the syndicated loan market are those which have traditionally been regarded as second-tier risk borrowers. These include countries such as North Africa, some borrowers in Southern Europe and South Korea, the most heavily indebted nation in the Far East.

Even some of these countries have diversified their borrowing programs into new instruments.

Spain is tapping the U.S. commercial paper market, while Korea Exchange Bank and the Republic of Portugal have arranged Euronote facilities. Others such as Thailand, Malaysia and Greece are also turning increasingly to the floating rate note market to cover a significant part of their needs.

But what has turned out to be particularly galling for bank lenders has been the way in which the availability of cheaper forms of credit has encouraged many borrowers to repay their existing debt and replace it with lower cost borrowing. Last year Sweden and Den-



mark both started to do this in a systematic fashion. Other countries which have also been reorganising previous debt include Ireland, Italy, Belgium, France and Canada, while last year Finland decided simply to cancel all its \$1.5bn in outstanding standby credit lines from commercial banks.

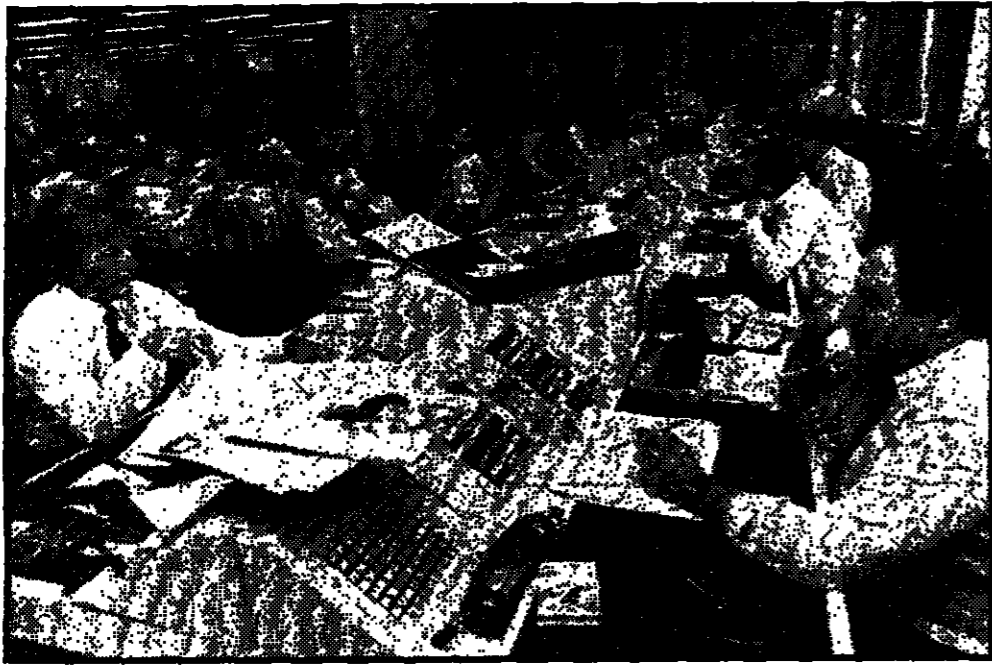
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Wonderful winning ways

Interest Swaps

ALEXANDER NICOLL

SWAPS, one of the fastest growing sectors of international credit markets for the past two years, have been described by one of the market's major players as "that wonderful invention where everyone wins."

Attempting to explain an extremely complex and fluid business in simple terms, swaps practitioners offer many catch-phrases to encapsulate what their market does. But essentially it allows a borrower, after raising funds in a market it can easily tap, to pay interest on that borrowing in whatever currency and whatever rate regimen it wishes. It can adjust debt servicing methods to suit its needs.

Thanks to the muscle of a few major participants, swaps have shown phenomenal growth. The leading player's estimate is that swaps covering U.S.\$150bn of debt principal were arranged last year, perhaps seven times 1983's total.

Such estimates are little more than conjecture, however, and could include a substantial amount of double counting since, in any transaction, there must obviously be at least two parties.

After such explosive growth, the signs are that maturity is fast arriving. Expansion has levelled off in the early part of 1985, with severe imbalances being exposed in basic supply and demand. Furthermore — always a sign of maturity — the regulators are showing interest.

Although Swaps, by their nature, involve two or more parties, they are perhaps best approached from the point of view of the individual borrower.

A typical but notional set of circumstances: XYZ Corp., an industrial company, wants to raise \$100m and to pay a fixed interest rate. If it was to issue a straight Eurobond, it would probably have to pay a coupon of about 15 per cent. It views this as prohibitive, and instead borrows from its banks at 11 per cent over Libor.

To obtain a fixed rate on this borrowing, it contracts with a swap intermediating bank. Swap

Bank, to pay 12½ per cent to Swap Bank for the length of the borrowing and to receive in exchange Libor. The Libor elements that it is receiving from Swap Bank and paying to its creditors cancel each other out. So XYZ is left with fixed costs of 12½ per cent being paid to Swap Bank and the 11 per cent spread over Libor being paid to its creditors.

The total of 13½ per cent is less than the 15 per cent which it would have had to pay on a conventional fixed rate bond issue. Meanwhile, Swap Bank is also signing a contract with a counterparty. AAA Bank AAA could borrow on the interbank market at or just above Libor, but wants to get cheaper funds. Because it is a prime borrower, it can obtain the finest terms available on the dollar Eurobond market.

Fixed rate

AAA Bank therefore issues a \$100m straight Eurobond with a coupon of 11½ per cent. Under its separate contract with Swap Bank AAA pays Libor to Swap Bank, and gets a fixed rate of 12½ per cent in return. The fixed payments are used to service the Eurobond, and also provide a surplus of 1 per cent.

Since AAA is paying Libor to Swap Bank its cost of funds is therefore Libor minus 1 per cent — a saving of 1 per cent or slightly more.

Both counterparties have therefore reduced their interest costs at existing rate levels, and for the longer term have established a rate structure more suited to them: industrial companies, fearing interest rate rises, may wish to lock in to fixed rate payments. Banks prefer to pay floating rates to match their lending rate structure.

In the middle, Swap Bank passes AAA's Libor payments to XYZ. In the other direction, it receives 12½ per cent from XYZ and passes 12 per cent to AAA — taking a 25 basis point spread itself.

Swaps need not always be between fixed and floating rate payments. They may be between one floating rate regimen (Libor-based) and another (U.S. prime-based), and in particular they may be between currencies—indeed, it was the pioneering use of currency swaps by major borrowers such as the World Bank which

first provided momentum to the swap market.

The World Bank has been one of the biggest participants, converting from dollar interest to currencies with lower rate levels such as Swiss francs. The Student Loan Marketing Association has also been important, converting from fixed to floating dollar rates.

The need to tailor-make swaps to meet individual needs of customers, and to match them with a range of counter-parties, has tended to foster the prominence of a few major intermediaries.

These have been Citicorp, Morgan Guaranty and Bankers Trust among commercial banks, and Salomon Brothers and First Boston among investment banks. There is also a range of second-tier participants in New York and London, including most of the top U.S. commercial banks, some of the leading investment banks, and London merchant banks such as Kleinwort Benson and J. Henry Schroder Wagg.

The biggest users of the market have been banks on the one hand and U.S. companies on the other. The latter have been encouraged to lock into fixed rates by the extreme volatility of interest rates in recent years, but demand from them is obviously determined to some extent by expectations for interest rates.

If they think rates are going to fall, they are less inclined to lock in now to what might be an expensive fixed rate.

Indeed, the signs now are that demand from banks wishing to obtain cheap floating rates far exceeds that from customers seeking to switch to fixed rates. This is hampering the market's growth.

There have as yet been no published defaults on a swap contract—which is separate

from the loan or bond agreement. In the above example, if XYZ Corp. were to default, it would stop paying 12½ per cent to Swap Bank, which in turn would stop paying Libor to XYZ.

Concern expressed

Swap Bank is then exposed to its contract with AAA Bank, which it must continue to honour. It can cover itself in various ways. For example, it can borrow more dollars— which will then be serviced by the Libor payments coming from AAA, and use the borrowed dollars to buy fixed rate instruments, the interest on which will go towards its 12 per cent payments to AAA.

The risk here is that fixed rates at the time of the default may have moved considerably from fixed rates at the time the swap contract was executed.

U.S. banks are considering to what extent they should disclose their swap exposure, and U.S. regulatory agencies are considering to what extent banks should be required to disclose. Officials of the Federal Reserve and other agencies have already expressed concern.

A different concern has arisen out of the differing perspectives of the major market participants. Investment banks, keen that swaps should become fully tradable items because they do not want to hold them on their books for a long period, have been discussing with commercial banks the establishment of standardised documentation.

Meanwhile, some have been requiring collateral and taking other measures to protect themselves. An active secondary market, and complexities such as options on swap contracts, are developing apace.

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U.S. \$200,000,000
General Electric Credit Corporation
Extendible Notes Due 1989 and 200,000 Warrants to Purchase 12% Notes Due 1994

U.S. \$100,000,000
Yasuda Trust and Finance (Hong Kong) Limited
12 1/2% Guaranteed Notes Due 1989
The Yasuda Trust and Banking Company, Limited

U.S. \$100,000,000
statoil
Den norske stats oljeselskap a.s.
Three Year Euro-Note Purchase Facility
Kingdom of Norway

U.S. \$100,000,000
Kyowa Finance (Hong Kong) Limited
12 1/2% Guaranteed Notes due 1990
The Kyowa Bank, Ltd.

U.S. \$100,000,000
Eldorado Nuclear Limited
Eldorado Nucléaire Limitée
Floating Rate Notes due February 1989

U.S. \$300,000,000
IBM Credit Corporation
Extendible Notes Due February 1, 2000

U.S. \$125,000,000
American Savings International N.V.
12% Guaranteed Bonds Due April 1, 1989
American Savings and Loan Association
Financial Corporation of America

U.S. \$100,000,000
Prudential Realty Securities III, Inc.
U.S. \$386,048,000 11 1/4% Guaranteed Sink Fund Bonds Due January 15, 1992
U.S. \$545,891,000 12 1/4% Guaranteed Sink Fund Bonds Due January 15, 1995
U.S. \$365,216,000 Guaranteed Zero Coupon Bonds Due January 15, 1999
Prudential Funding Corporation
The Prudential Insurance Company of America

U.S. \$500,000,000
Elders Finance & Investment Co. Limited
Global Note Issuance and Standby Facility
U.S. Commercial Paper and Euro Notes

U.S. \$200,000,000
First Chicago Corporation
Floating Rate Subordinated Capital Notes Due February 1987

U.S. \$445,500,000
Caisse Centrale de Coopération Economique
13.82% Guaranteed Bonds due 2009
The Republic of France

U.S. \$100,000,000
American Savings International N.V.
12 1/2% Guaranteed Bonds Due May 15, 1989
American Savings and Loan Association
Financial Corporation of America

U.S. \$150,000,000
The Procter & Gamble Company
Extendible Notes Due December 15, 1994 and 150,000 Warrants to Purchase U.S. \$50,000,000 1 1/4% Notes Due December 15, 1999

U.S. \$100,000,000
Wells Fargo & Company
13 1/4% Subordinated Notes Due September 28, 1991

U.S. \$298,660,000
New England Life Mortgage Funding Corporation
New England Mutual Life Insurance Company
Commercial Mortgage-Backed Bonds, Series 1985-1
U.S. \$59,725,000 11 1/4% Sink Fund Bonds Due February 1, 1992
U.S. \$148,025,000 11 1/4% Sink Fund Bonds Due February 1, 1995
U.S. \$89,910,000 Zero Coupon Bonds Due February 1, 1999

U.S. \$100,000,000
GRAM Finance N.V.
13 1/4% Guaranteed Notes Due August 22, 1989
Great American First Savings Bank
Federal National Mortgage Association

U.S. \$75,000,000
The Society for Savings
11 1/4% Secured Bonds Due February 25, 1990

U.S. \$100,000,000
The Nippon Credit Bank (Curaçao) Finance, N.V.
13 1/2% Guaranteed Notes Due 1989
The Nippon Credit Bank, Ltd.

U.S. \$100,000,000
CTICORP
11 1/4% Notes Due February 1, 1992

U.S. \$200,000,000
IBM Credit Corporation
Extendible Notes Due March 1, 2000

U.S. \$150,000,000
Sumitomo Finance (Asia) Limited
12 1/2% Guaranteed Notes due 1991
The Sumitomo Bank, Limited

U.S. \$100,000,000
Shearson/American Express N.V.
12 1/2% Guaranteed Notes Due March 15, 1994
Shearson/American Express Inc.

U.S. \$75,000,000
International Paper Overseas Finance N.V.
12% Guaranteed Notes Due March 22, 1991
International Paper Company

U.S. \$100,000,000
Republic New York Corporation
Floating Rate Subordinated Notes Due December 2000

U.S. \$200,000,000
IBM Credit Corporation
11 1/4% Notes Due October 1, 1987

U.S. \$150,000,000
Florida Federal Savings International Finance N.V.
12 1/2% Guaranteed Bonds Due May 15, 1989
Florida Federal Savings and Loan Association

U.S. \$150,000,000
Republic Bank Corporation
Floating Rate Subordinated Notes Due 1997

U.S. \$100,000,000
McDonald's Corporation
Three Year Extendible Notes Due October 15, 1996

Cdn. \$50,000,000
The Toronto-Dominion Bank
12 1/2% Deposit Notes Due November 27, 1989 and \$5,000,000 Warrants to Purchase Cdn. \$20,000,000 12 1/2% Deposit Notes Due November 27, 1994

U.S. \$100,000,000
Republic Bank Corporation
Floating Rate Subordinated Notes Due 1997

U.S. \$100,000,000
Republic Bank Corporation
Floating Rate Subordinated Notes Due 1997

Salomon Brothers International Limited

Since January 1, 1984 Salomon Brothers International Limited has lead-managed more than 40 Euromarket offerings. Total U.S. dollar volume has exceeded \$7.0 billion.

U.S. \$100,000,000
Sumitomo Finance (Asia) Limited
12 1/2% Guaranteed Notes due 1991
The Sumitomo Bank, Limited

U.S. \$100,000,000
Republic Bank Corporation
Floating Rate Subordinated Notes Due 1997

U.S. \$100,000,000
Republic Bank Corporation
Floating Rate Subordinated Notes Due 1997

U.S. \$100,000,000
Republic Bank Corporation
Floating Rate Subordinated Notes Due 1997

U.S. \$100,000,000
Republic Bank Corporation
Floating Rate Subordinated Notes Due 1997

U.S. \$100,000,000
Republic Bank Corporation
Floating Rate Subordinated Notes Due 1997

U.S. \$100,000,000
Republic Bank Corporation
Floating Rate Subordinated Notes Due 1997

U.S. \$100,000,000
Republic Bank Corporation
Floating Rate Subordinated Notes Due 1997

International Capital Markets 10

Is Labor dead? On this and the facing page leading borrowers and bankers assess the future for this benchmark rate.

It's just a question of protection against risk

AMONG THE great discoveries of nature and insights into the secrets of life, Labor (the London Interbank Offered Rate) doubtless will be fondly remembered—particularly by investors and commercial bankers. The use of Labor as the virtual universal benchmark for the pricing of dollar-denominated interest rate sensitive debt outside the U.S. was inevitable and understandable. It satisfied almost everyone. The reasons for its success are transparent.

The fact is Labor-based lending permitted commercial banks to relax—not to worry about credit distinctions or mismatches between funding costs and return on assets. Banks were not about to fall into the trap of taking on interest rate sensitive liabilities while deploying them on fixed rate loans. And, if in some countries, home owners were as yet unwilling to take on the volatility of floating or adjustable rate mortgages, there was no shortage of sovereign governments prepared to do just that.

From the borrowers perspective, Labor-based instruments were described as "long term." "Long Term" became synonymous with certainty. Again, there was little concern with volatility, although as matters later developed the uncertainty of the cost of servicing may have been an appropriate price to pay as compared to the certainty of the perpetual nature of the maturity. But that is another story.

Labor had other attractions. It did not discriminate between not-so-hot banks, careful banks or aggressive banks. The funding costs of banks, except in a few isolated situations, did not distinguish fully the better capitalised or more cautious banks from their less-endowed competitors.

Labor did not penalise, generally, banks on the basis of the quality of their assets or the

rate of return on those assets. It was and is a sort of lowest common denominator pricing. Not exactly a comfortable benchmark for the highest credit standing issuers in the world.

Similarly, the spreads paid by issuers or debtors "over" or "under" Labor seemed driven, at any given time, primarily by a desire for market share, the slope of the yield curve, the proliferation of offices in the proliferation of consumer loan demand back home, and more generally the capacity of the lead manager to exercise discipline over its co-underwriters and thereby diffuse risk.

There was hardly any room to distinguish, on the basis of spreads, India from China from Korea from Mexico from France from Sweden. The credit standing of the insurer got lost in the rounding.

Everyone used it: banks; issuers; debtors; rich countries; poor countries; traders and arbitrageurs. Clearly, if the largest and best of the brightest banks in the world lent money to each other at Labor, should not that rate provide the basis for Sweden and France and the World Bank?

Labor also proved wonderfully unstable against the U.S. Treasury Bill, unpredictably ratcheting up rates for all banks when any one bank (or country) had published problems. Not unexpectedly, the volatility created the opportunity even the necessity, for hedging, arbitrage, swaps—a process still continuing.

Labor also provided a cost benchmark for pricing loans based on the marginally highest cost of funds—a particularly useful characteristic for banks with a diversified source of funding—even more so if they were a natural dollar-based

deposit-taking institution. That aspect, however, did not help issuers.

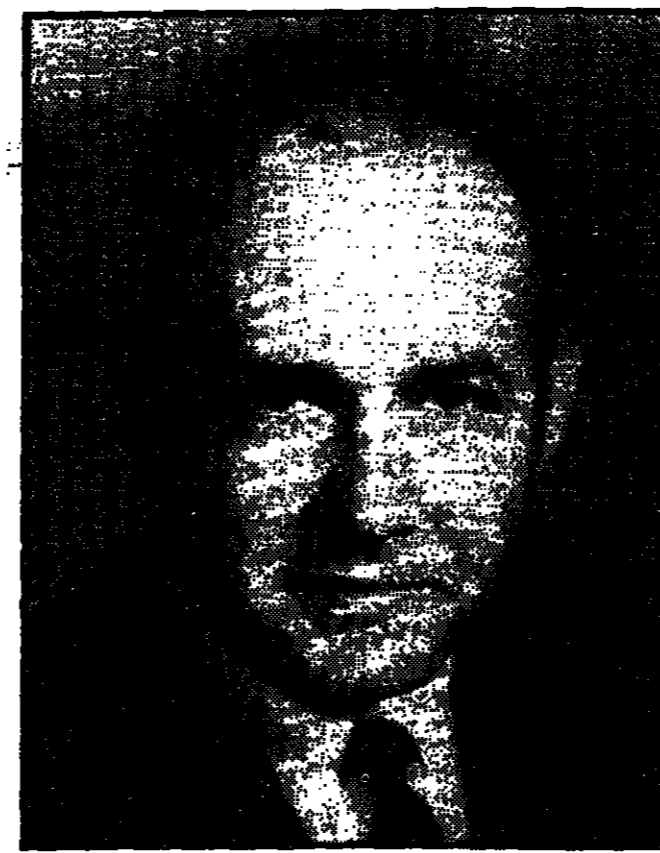
Perhaps most relevant, Labor pricing did not require an external customer base. The ultimate investor could just as well be the under-writing bank.

For the World Bank, all this was a puzzle. We had come but lately onto the scene, borrowing for the first time in 1962 through interest rate sensitive instruments in the U.S. domestic short-term market—and even then by means of day-to-day pricing strictly based on the prevailing yields for short-dated U.S. government obligations and typically at 10-15 basis points over the yield for those instruments.

Over the last 30 years, our fixed rate bonds were consistently priced on the basis of the yield on fixed rate government obligations. We were accustomed to depositing our liquidity in commercial banks particularly when Labor escalated to 300-400 basis points over U.S. Treasury Bills.

The idea that the World Bank should price its bonds on the basis of those rates was anomalous at best and innovative to say the least. The development expected and fair, which brought Labor-based instruments to the U.S. simply provided a successful test of the quality of the World Bank credit.

The very success and the reasons for Labor acceptance increased our anxiety about its wisdom for us. We had the luxury of waiting. The first T-Bill FRN in Europe was brought to market with the World Bank name by Bankers Trust. Only a partial success—but, nonetheless, it represented



Eugene H. Rothberg, Vice-President and Treasurer of the International Bank for Reconstruction and Development

an attempt by reasonable and motivated bankers to test the market outside the banking system—in a favourable environment when Labor-Bill spreads were quite narrow.

Later First Boston, then Solomon Brothers, again, this time in the U.S. domestic market found a niche—customers who wanted a high quality credit other than a commercial bank—which would provide a return over T-Bills. Someone, we concluded, must be purchasing Treasury Bills. After all, there are \$325bn outstanding with a maturity six months or less. Central banks, clearly were and are not the only non-U.S. holders.

Morgan Guaranty then restructured the "traditional" T-Bill-based issue by creating an instrument which provided (a) immediate liquidity, (b) a take-

out at Par, (c) a return higher than the three month T-Bill, (d) an assurance of funding for a reasonable time for the Bank. Investors therefore had choices—puts, secondary market liquidity, and/or protection against capital loss. Five hundred million dollars. A diversified customer base—institutional and corporate.

The prospects remain bright. After all if it is mainly the open-ended risk of the T-Bill Labor spread going berserk, one would think there might be ways to hedge that risk, lock in spreads, and protect oneself. The thought occurs, if one were to fix the spread to say 25 per cent of the difference between T-Bill and Labor and guarantee a minimum decent spread over the T-Bill, what would an issuer (or underwriter) do and for how much to protect against an escalation of rates?

I suspect someone will work it out. After all, there's nothing "wrong" with Labor. It's just a question of protection against risk. Like carrying an umbrella.

Eugene H. Rothberg

Not necessarily appropriate basis for one-in-one lending

SWEDEN'S borrowings at floating interest rates were originally done in the syndicated credit market and it was natural that these credits were priced off a cost-of-funds-related base rate, such as Labor.

It is, however, important to recognise that Labor can vary as between groups and classes of banks. This tiering can also vary over time.

Normally this means that a Labor-related rate would provide a higher effective return, in relation to cost of funds, to the largest, more creditworthy dollar-based banks than to the smaller, peripheral or non-dollar-based banks.

This would suggest that large, widely-syndicated international bank credits will continue to be Labor-based, but also that the leading banks should pay more attention to the distribution of fees so as to achieve a more equitable treatment of the majority of banks in the syndicate. Otherwise the market for broad syndication might continue to shrink, to the detriment of banks and borrowers alike.

This also means that Labor is not necessarily the appropriate basis for one-in-one lending by the large dollar-based banks for which Labor is not relevant as a measure of their cost of funds. This diversification, designed to come closer to the banks' cost of funds, has already taken place in the U.S., where pricing in relation to the CD (Certificate of Deposit) rate has become more usual and is replacing the use of the prime rate as a reference rate.

The floating rate note (FRN) market developed initially as an extension of the credit market and, when banks were the principal investors, it was natural that Labor became the principal reference rate. However, as the investor base widened away from commercial banks and to the extent that FRNs develop into highly traded and liquid instruments, the argument for Labor as a base rate quickly erodes. This has been shown by the increasing use of Libor and Libid as reference rates in this market.

For instruments that are primarily designed for non-bank investors, Labor should be

irrelevant as a reference rate, unless commercial banks are regarded as "investors of last resort." The latter role can, however, be better performed through various back-stop facilities.

FRNs that are widely traded and thus have a high degree of liquidity and, even more so, short-term Euronotes should be priced on the basis of alternative investment vehicles.

These might be Treasury bills, commercial papers, bankers' acceptances, CDs, etc. The notional base rate should be the rate for the least risky and most liquid instrument, which is usually the Treasury bill.

As AAA-rated paper by sovereign borrowers obviously represents a higher quality paper than bank CDs, the former should carry a lower interest rate than the latter. Since the CD rate is normally below Labor, this also means that there is no reason to use Labor as a reference rate.

As the Euronote market develops further into a parallel with the commercial paper market in the U.S., it is likely that the rate structure will develop more fully based on credit risk, in which case Labor will become of reduced significance. As such instruments will appeal to the treasuries of corporations, institutions, commercial banks and to central banks, they will develop their own rate structure without reference to Labor.

In this area the dollar markets are likely to lead, but the same fundamental argument holds for other currencies. That development is, however, hampered in those countries where the authorities do not permit foreign borrowers in the short markets. Such restrictive policies will continue to preserve the domestic banks' ability to maintain artificially high lending rates.

Peter Engstrom



Peter Engstrom, Director of the Swedish National Debt Office

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U.S. \$100,000,000

Federated Department Stores, Inc.

11% Notes Due 1990

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Goldman Sachs International Corp.

Credit Suisse First Boston Limited

Dresdner Bank

Société Générale

Swiss Bank Corporation International Limited

Union Bank of Switzerland (Securities) Limited

Al-Mal Group

Al Saudi Banque

Algemeine Bank Nederland N.V.

American Express Bank

Amro International Limited

Arab Banking Corporation (ABC)

Arnhold and S. Bleichroeder, Inc.

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Banca Commerciale Italiana

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Bank für Gemeinwirtschaft

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Banque Populaire Suisse S.A. Luxembourg

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Banque Worms

Bayerische Vereinsbank

Barclays Bank Group

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Bayerische Hypothek- und Wechsel-Bank

Cazenove & Co.

Berliner Bank

Caisse Centrale des Banques Populaires

Caisse des Dépôts et Consignations

Commerzbank

Chase Manhattan Bank

CIBC Limited

Compagnie de Banque et d'Investissements, CBI

Crédit Industriel et Commercial de Paris

Credit du Nord

Creditanstalt-Bankverein

Dai-ichi Kangyo International Limited

Daiwa Europe Limited

Den Danske Bank

Deutsche Bank

DG Bank

Dominion Securities Pitfield

Drexel Burnham Lambert

Enskilda Securities

Euromobiliare

European Banking Company

First Chicago Limited

First Interstate Limited

Gefina International Ltd.

Genossenschaftliche Zentralbank AG

Girozentrale und Bank de Österreichischen Sparkassen

Gmündel Brands Limited

Grupement Privé Genevois S.A.

Gulf International Bank B.S.C.

Handelsbank N.V. (Overseas) Ltd.

Hessische Landesbank

Hill Samuel & Co. Limited

E. F. Hutton & Co. (London) Ltd.

IBJ International Limited

Kreditbank N.V.

Kuwait Foreign Trading Contracting and Investment Co. (S.A.K.)

Kidder, Peabody International Limited

Kleinwort, Benson Limited

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LYC International Limited

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Svenska Handelsbanken Group

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Verband Schweizerischer Kantonalbanken

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Westdeutsche Landesbank Girozentrale

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February, 1985

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London: 1 & 2 April, 1985

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Dr Michael von Clemm

Mr David C Mulford

Mr Sven Wallgren

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International Capital Markets 11



Alan Moore, Group Treasurer of Lloyds Bank

Use for loans on the balance sheet should be assured

THE DEVELOPMENT of Libor (London Interbank Offered Rate) as a pricing mechanism, coupled with the concept of rollover lending, facilitated the major role played by banks as international financial intermediaries over the past fifteen years.

The roll-over loan technique meant that the medium-term loans needed by borrowers could be funded by banks from shorter-term deposits without interest risk. The Libor pricing mechanism meant that many banks without established customer deposits in U.S. dollars, especially new ones, that

joined the market could be reasonably sure of obtaining funds from the interbank market at the reference rate and thus earn the risk margin attributed to the loan.

Libor's universal use was briefly challenged by "U.S. Prime Rate" when the country's regional banks entered the market and borrowers were attracted by nominally tiny margins over Prime. However, Prime Rate is not itself a cost of funds and borrowers soon came to realise the inbuilt additional profit margin—the formula lacked the apparent "equity" of Libor.

In 1984 Libor faced competition from inherently cheaper variants of the same formula, such as London and Libid and even non-related reference rates such as U.S. bankers' acceptances or Treasury bills.

A parallel development was that facilities using the lower variants of Libor were often in the form of negotiable paper intended not to stay on banks' balance sheets but to be sold to investors.

Investors who placed deposits

with banks generally preferred to use only prime names who would have paid Libor for a deposit and rather less than that if the investor required a negotiable Certificate of Deposit (CD). Investors can therefore regard negotiable instruments issued by first class borrowers as attractive if they offer a better rate than bank CDs. Hence the ability of investment bankers to promote and sell issues based rate than bank CDs.

It cannot be said that banks in general view this development with favour but the market place is a dynamic one and must reflect competitive forces.

Libor will undoubtedly remain a necessary basis for loans to borrowers whose paper would not be marketable to investors and wherever a wide degree of syndication to second and third tier banks is involved.

Such banks do not have access to primary deposits on the finest terms and to them Libor certainly reflects the cost of funds.

Prime banks may find that investors who previously bought their CDs, at 1 per cent per annum under Libid—effectively 1 per cent per annum under Libor—now buy borrowers' paper instead. The cost of funding in the Eurocurrency market even to prime banks may thereby increase, pushing them to regard any pricing formula other than Libor with deep misgiving, although occasionally justified if alternative sources of funds such as U.S. commercial paper can be utilised.

By far the greater proportion of Eurocurrency loans will, however, continue to be financed out of the wholesale interbank market.

The current spate of issues based on less than Libor may abate as investors become saturated with borrowers' paper and more of it returns to the secondary market. While Libid may be an adequate and feasible basis for negotiable paper, the future of Libor as a basis for banking loans that stay on balance sheets should be assured.

If a healthy, broad participation in syndicated lending is to be maintained the pricing formula must reflect the cost of funds to a wide range of banks. Not to do so will eventually be counterproductive as the activity will be seen as insufficiently profitable.

Alan Moore

Too soon to be written off as an important benchmark

THERE is an active debate in the capital market. Will Libor (the London Interbank Offered Rate) continue as the respected benchmark for the pricing of floating rate securities and loans? Historically banks borrowed at the Libid rate (1 per cent below Libor) and made commercial loans at a margin or "spread" over Libor to generate a lending profit.

Increasingly during 1984 and 1985 the margin over Libor paid by borrowers has come under pressure.

● In the floating rate note market the margins that prime borrowers have been paying have reduced dramatically. In 1984, for example, the Republic of Italy halved its borrowing spread against Libor between August and October. Even more remarkably, Credit Lyonnais' cost over Libor for 12-year financing dropped from 0.24 per cent in May 1984 to 0.15 per cent in September. Today the spread would be less than 0.10 per cent.

● At the same time there has been an explosion of short term note issuance facilities which have translated the pricing available on short-term money instruments to the medium-term floating rate loan market.

Not only have margins come under pressure but the Libor benchmark itself has been challenged. Several borrowers have attempted to introduce new pricing formulas to provide sub-Libor pricing. The World Bank (twice) and Swedish Export-credit (once) have offered Euro investors floating rate notes linked to the Treasury Bill rate. But none of these offerings have appealed to traditional floating rate note investors.

It is not surprising that issuers are contemplating the demise of Libor. It is in their interest to push the market that way.

From the investor's viewpoint the argument is very different. If the market for floating rate instruments was simply pools of capital looking to achieve a floating return then there would be strong arguments for the decrease in the importance of Libor.

The internationalisation of capital markets has given investors access to a wide range of floating rate instruments—

U.S. Treasury bills, U.S. domestic bill floaters, commercial paper, bankers' acceptances. As portfolios diversify they will be willing to accept returns below Libor if they are still higher than other benchmarks available in the U.S. market.

Unfortunately for the issuers, the market for floating rate instruments is still largely a banking market where purchases are made on the basis of a spread, i.e. the difference between the margin on the floating rate instruments and the bank's funding cost. The only argument then for the demise of

If the market for floating rate instruments was simply pools of capital looking to achieve a floating return then there would be strong arguments for the decrease in the importance of Libor.

Libor is that a bank's funding cost is no longer Libid but at some level below this.

Interest rate swaps and similar financing vehicles have been important in reducing the floating rate cost of funds to both U.S. domestic and foreign banks. Foreign banks have also gained access to the U.S. commercial paper market in increasing number, again reducing their cost of funding.

However, the bulk of the funding of non-U.S. banks is still through the interbank which suggests that Libor will remain as an important benchmark.

There is no doubt that the present trend to increase the types of floating rate instruments sold in Europe will increase, particularly for the prime borrowers, but it is too soon to assume that for the vast majority of issuers Libor will not continue to be the important pricing benchmark.

Peter Ogden



Peter Ogden, Managing Director of Syndicated and New Issues at Morgan Stanley International

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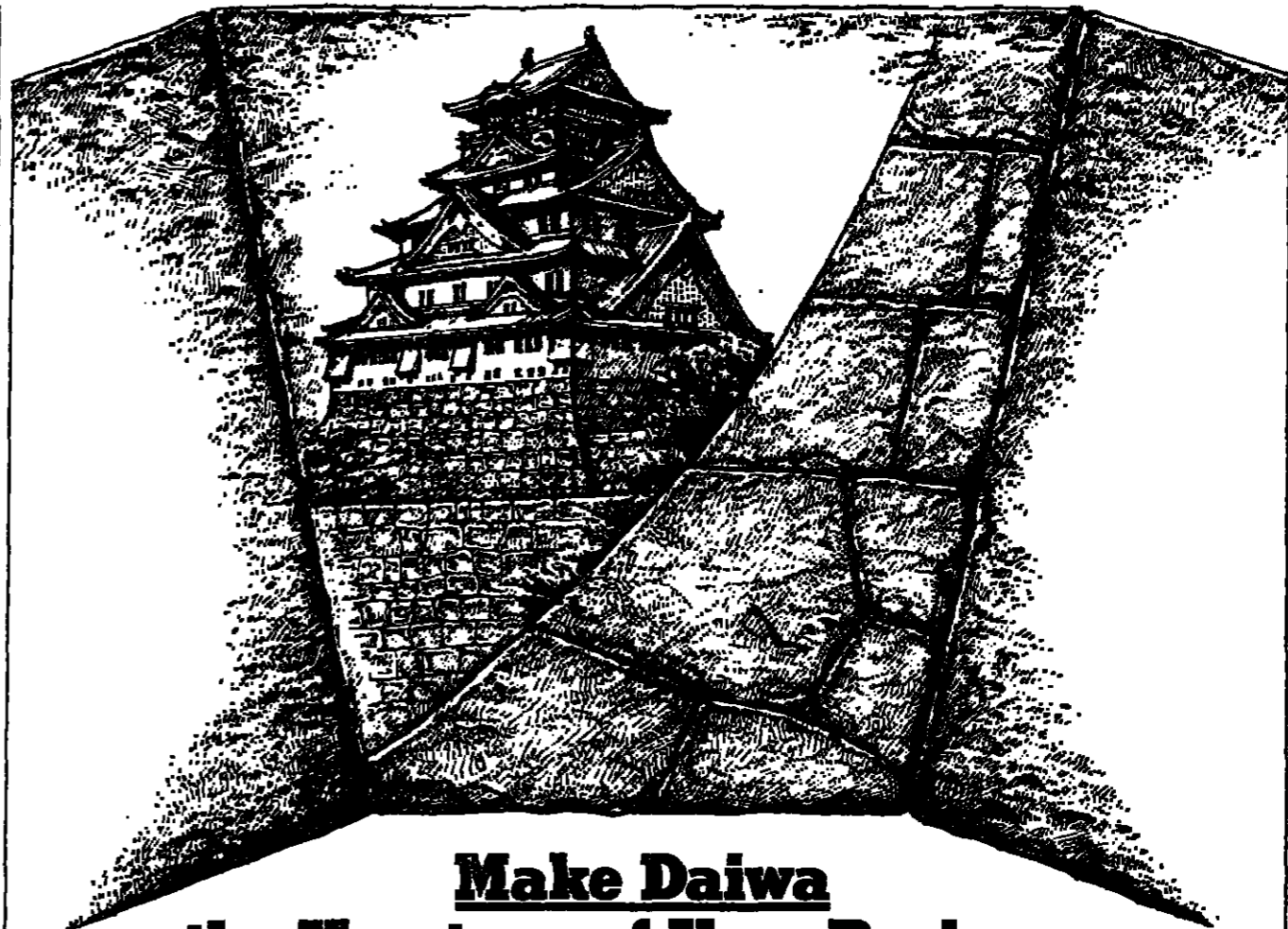
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International Capital Markets 12

NEW ISSUE

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of the Company's Common Stock

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Bank Heusser & Cie AG
Banque Bruxelles Lambert (Suisse) S.A.
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Chemical Bank (Suisse)
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Soditic S.A.
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The Royal Bank of Canada (Suisse)

NORDFINANZ-BANK ZÜRICH

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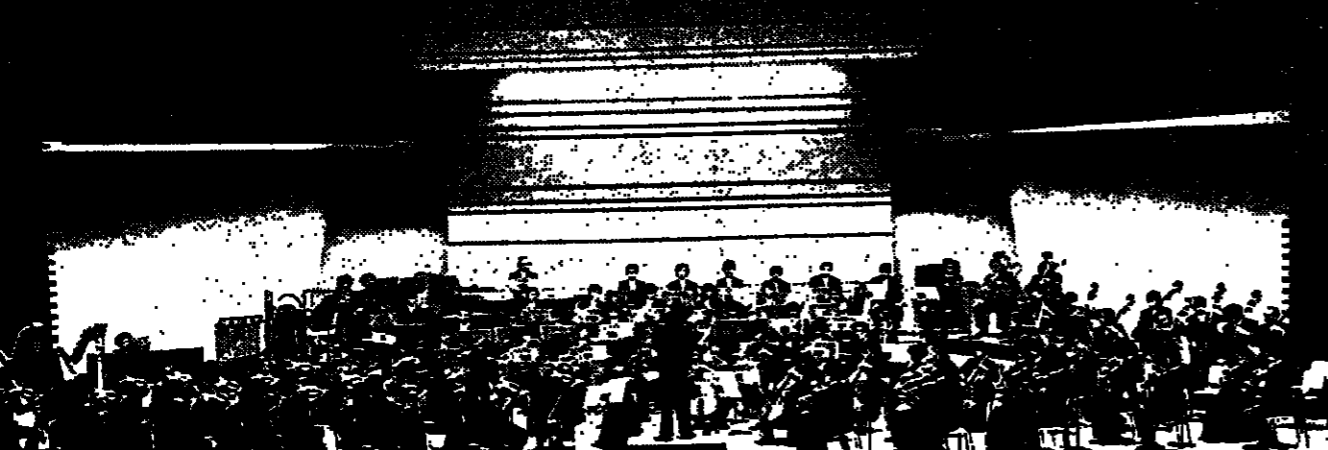
Armand von Ernst & Cie AG
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Banque Générale du Luxembourg
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Banque Morgan Grenfell en Suisse S.A.
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Winterthur
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February 28, 1985



Keeping Our Eyes and Ears Open

The keen eyes and sensitive ears of an orchestra conductor help to make possible a glorious symphonic performance. Indeed, his awareness plays a critical role in creating a delightful harmony. Keeping our eyes and ears open to the changing marketplace, we at Toyo Trust will maintain our own awareness to respond to your needs. Specifically, the harmony within our wide variety of financial services is sure to meet your sophisticated requirements. Please feel free to call on us and ask how.

The Toyo Trust and Banking Company, Limited

4-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan TEL (03) 267-2211 Telex J22123 TYTBKI
Overseas Offices/London, New York, Los Angeles, Hong Kong, Singapore, Bahrain, Sydney, Beijing, Shanghai
Subsidiaries/Toyo Trust International Limited (London), Toyo Trust Asia Limited (Hong Kong)

Developments in New York

March 1985: New York's Commodity Exchange (Comex) and Sydney Futures Exchange Limited of Australia, sign final agreement to establish an international trading linkage between the two exchanges.

A district court judge freezes all assets of ESM Government Securities, a Miami-based securities trader.

February 1985: Mellon Bank Corp. receives permission to open a consumer bank in New York.

Trading in individual stock options on the New York Stock Exchange is authorised by the Securities and Exchange Commission (SEC).

Citicorp bids for Secombe Marshall and Campion, a UK discount broker.

The New York Federal Reserve Bank proposes voluntary capital adequacy guidelines for government securities dealers.

Marine Midland sells \$20m in auto loans "cars" to Salomon Brothers for resale to institutional investors.

January 1985: The New York Cotton Exchange plans to introduce a U.S. dollar index futures contract.

The New York Stock Exchange in talks with Pacific Stock Exchange on a possible merger.

Treasury begins to offer zero-coupon long-term bonds under its "stripe" programme.

Three brokerage firms install automated systems to execute trades in over-the-counter (OTC) stocks.

The Financial Guaranty Insurance Company (EGIC) and Shearson Lehman Brothers announce new secondary market insured bond programme.

December 1984: New York Stock Exchange 1984 volume totals record \$21.2bn.

Salomon Brothers is leading underwriter with \$21.2bn in debt and equity issues for 1984.

November 1984: The Board of Governors of the National Association of Securities Dealers (NASD) permits the expansion of Nasdaq national market system from 1,102 securities to 2,600.

The Equitable Life Assurance Society to acquire Donaldson, Lufkin and Jenrette.

October 1984: Comex launches options on silver futures.

Foreign investors bid a total of \$4bn for the first ever issue of "targeted" Treasury notes.

September 1984: Citicorp announces plans to buy Scrimgeour Kemp-Gee and Vickers da Costa, two British stock brokerages.

July 1984: Shearson Lehman Brothers announces plans to buy full control of L. Messel, a major UK stockbroker.

The New York Stock Exchange begins studying the possibility of 24-hour trading.

June 1984: Decision is reached by U.S. Senate and House conferences to repeal the 30 per cent withholding tax on interest paid to foreign investors.

Dean Witter Reynolds offers first leveraged buyout fund available for individual investors.

May 1984: Shearson/American Express announces completion of its acquisition of Lehman Brothers Kuhn Loeb.

Lion Capital Group, a government securities firm, files for bankruptcy.

April 1984: Salomon Brothers offers record \$4.8bn of certificates of accrual on Treasury securities (Cats). Since their introduction in 1982, sales of zero coupon securities have topped \$40bn.

Commercial paper outstanding (\$m)

End month	All issuers	Financial companies	Non-financial companies	Bank-related	Bank-related	Bank-related
		dealer-placed	dealer-placed	dealer-placed	dealer-placed	dealer-placed
		Total	Total	Total	Total	Total
December 1984	231,760	166,776	57,191	35,964	21,227	100,585
November 1984	238,024	167,044	56,240	34,530	21,710	110,594
October 1984	230,511	164,174	54,055	32,294	20,761	106,118
September 1984	226,736	159,542	52,138	32,276	19,962	107,494
August 1984	220,125	158,358	50,313	30,863	19,450	106,648
July 1984	222,782	160,544	49,676	30,730	18,946	110,668
June 1984	220,594	160,413	50,216	26,418	22,798	110,197
May 1984	215,345	161,474	51,134	30,610	20,524	110,346
April 1984	210,073	156,329	48,370	29,050	19,320	106,276
March 1984	200,365	151,197	46,566	28,645	17,508	104,641
February 1984	193,926	146,733	45,856	28,002	17,524	101,227
January 1984	187,284	142,538	44,082	25,297	15,785	98,556
December 1983	181,348	137,970	41,727	25,834	15,893	94,343
November 1983	182,475	137,297	42,124	26,275	15,849	95,173
October 1983	177,150	132,128	39,124	26,113	13,021	92,994
September 1983	170,125	130,230	39,247	25,463	13,784	91,662
August 1983	172,487	129,375	39,136	26,081	13,055	90,239
July 1983	173,674	128,520	37,927	25,741	12,166	90,593
June 1983	171,642	127,318	38,645	25,296	13,349	88,673

End month	Non-financial companies	Non-financial companies	Non-financial companies	Bank-related	Bank-related	Bank-related
	dealer-placed	dealer-placed	dealer-placed	dealer-placed	dealer-placed	dealer-placed
	Total	Total	Total	Total	Total	Total
December 1984	64,984	58,490	6,494	44,140	2,935	42,105
November 1984	70,989	63,777	7,212	42,181	1,996	40,185
October 1984	70,337	63,658	6,679	40,172	2,060	38,112
September 1984	67,194	60,349	6,845	43,025	1,959	41,066
August 1984	61,767	54,866	6,901	43,075	2,019	43,056
July 1984	62,238	55,312	6,926	45,994	1,944	43,980
June 1984	60,181	53,463	6,718	46,889	1,996	44,893
May 1984	53,871	47,054	6,817	48,034	1,865	46,169
April 1984	53,744	47,123	6,621	43,746	1,865	41,881
March 1984	49,163	42,518	6,650	41,884	1,767	39,617
February 1984	47,173	40,907	6,266	38,723	1,765	36,958
January 1984	44,646	38,104	6,542	39,727	2,441	37,286
December 1983	43,378	37,731	5,647	38,007	2,441	35,566
November 1983	43,378	37,731	5,647	37,242	2,341	35,001
October 1983	45,622	39,446	5,576	36,817	2,195	34,622
September 1983	45,622	40,243	5,602	37,150	2,303	34,846
August 1983	45,645	37,677	5,355	37,438	2,353	35,085
July 1983	44,154	38,821	5,333	35,990	2,267	33,723
June 1983	44,224	39,116	5,208	35,612	2,192	33,420

Research associates: Rivka Nachoms

Sharp competition as business booms

Commercial Paper

PAUL TAYLOR

THE U.S. commercial paper market is booming. At the same time the \$240bn market is being reshaped by new entrants who are seeking to tap it as a source of relatively cheap finance, and by sharper competition among the traditional dealers and others.

Last year the volume of outstanding commercial paper in the U.S. increased by a record \$50.4bn to \$238.5bn, easily surpassing the previous record increase of \$40.4bn set in 1981.

The increase has been spurred by key factors including:

● The cyclical upturn in business borrowing. As cash reserves ran down corporations turned to the debt markets to fund capital spending and other needs.

● The normal business cycle was a major factor, says Mr Carl Leaman, vice president and manager of Salomon Brothers' commercial paper activities.

● The sharply positive sloping yield curve and relatively large spread between commercial paper and U.S. bank prime rates have made the commercial paper market an even more attractive alternative, both for long-term debt and bank borrowing.

For much of 1984 there was a 300 basis point spread between short and long-term U.S. interest rates, making short-term borrowing particularly attractive. In addition, as Mr Brian Fabri of Salomon Brothers notes, "the spread between commercial paper rates and the prime rate was especially wide."

● The boom in merger and acquisition activity, much of which has been financed on an interim basis by short-term borrowing in the commercial paper market.

Last year some \$70bn to \$80bn was raised to fund mergers, acquisitions and leveraged buyouts. In many cases the commercial paper market provided a first stop for funding. Companies used the commercial paper markets before arranging long-term financing, says Mr Roger Lynch,

chairman of Goldman Sachs money markets unit.

● Foreign borrowers have begun to tap the U.S. market in search of cheap dollar funding and what Wall Street commercial paper experts, like Mr Lynch, call "financial public relations" — a way to get a foreign company name known in the U.S. markets.

Foreign companies have only just begun to tap the U.S. commercial paper market, accounting for around 12 per cent or about \$20bn out of the total at year end. Among the new names introduced to the commercial paper markets last year were companies like Hong Kong's mass transit railway corporation and L. M. Ericsson, which both launched initial \$100m paper programmes.

backed by insurance group's guarantees.

● The market has opened up a bit, says Salomon's Mr Fabri. "Certainly more and more companies seem to be using guarantees," says Mr Leaman. By the end of last year the volume of outstanding dealer-placed commercial paper backed by guarantees had risen to \$17.4bn, from \$16bn 12 months earlier. The increase in guaranteed paper represents a welcome boost to insurance company revenues, typically they charge between 0.25 and 1 per cent for lending their top-notch credit rating to an issuer's paper programme.

● The commercial paper market's flexibility offers particular attractions for companies involved in interest rate swaps.

largely spurred by Paribas Becker's expertise in the commercial paper business—has probably made Merrill Lynch the largest commercial paper dealer in the U.S.

Both Shearson and Merrill Lynch are thought to have managed to hold on to most of their new partners' old clients. But, as one senior Wall Street commercial paper expert notes, "the jury is still out." Meanwhile a few issuers have switched dealers and the "droppings" have been eagerly snapped up by other market participants.

At the same time some of the more aggressive and smaller players in the market have begun expanding it through innovative deals, like those of teaming up new clients with bank letters of credit or insurance company guarantees.

The commercial banks have also begun looking increasingly enviously at the commercial paper business—spurred in part by the switch by some of their traditional corporate borrowers to commercial paper.

Led by Bankers Trust and more recently Citicorp and others, they have actively challenged the rules which bar them from securities underwriting in the U.S. Last June the Supreme Court ruled that the Federal Reserve Board and the courts are due to rule on another aspect of the key test case involving Bankers Trust, which has maintained that it acts as an agent rather than an underwriter in the commercial paper market, bringing buyers and sellers together and collecting a fee for its service.

Even if the banks lose this test case they have already put in place plans to exploit the commercial paper market through other loopholes—like setting up separate subsidiaries to handle their commercial paper activities.

The commercial paper business has turned out to be the latest testing ground for the battered Glass-Steagall Act, but most investment bankers privately concede "The banks are here to stay."

In the meantime most economists expect the U.S. commercial paper market to continue to expand this year—perhaps by as much as \$65bn.

These factors are combining to turn the once "elite" U.S. commercial paper market—open only to the best quality domestic corporate industrial and financial borrowers—into a rapidly expanding high-volume business.

This in turn is beginning to have an impact on the structure of the tightly-knit group of Wall Street dealers—led by Goldman Sachs, which has around 30 per cent of the market—who have long dominated the market.

Two major Wall Street acquisitions, in particular, have changed the "league table" of the major Wall Street dealers. Shearson American Express's acquisition of Lehman Brothers considerably expanded Shearson's position in the market, while Merrill Lynch's purchase of Becker Paribas last year—

Energy

CHRIS CR

BACK

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Oil no longer a prime area for secure lending

Energy Loans

CHRIS CRAGG

BACK IN March 1984, Continental Illinois Corporation explained to its shareholders that its energy lending at the end of 1983 amounted to \$5.2bn, or more than 17 per cent of total lending. Of these loans \$2.8bn were non-performing. The bank added that a further \$2.1bn of its energy loans were not classified as non-performing but had principal or interest payments past a deadline of 90 days.

What happened subsequently to Continental Illinois is well known and not a happy experience. What is less recognised is that it was the falling oil price and the U.S. natural gas glut that did most of the damage.

Certainly there is nothing about the present energy market that would suggest it is a prime area for secure lending. The oil price appears uncertain over the next five years, with most forecasts pointing downward.

Gone are the days when banks and oil companies together could underwrite the final cost of the UK Forties field by a factor of three, and yet make up all and more of the potential loss by the increase of the oil price from \$12 a barrel to

\$30 a barrel.

Gone, too, are the days when the Bank of Tokyo, Bank of Montreal, Fuji, Mitsu, Mitsubishi, Credit Lyonnais and CIBC could easily attract other banks into a \$2950m limited recourse project loan to Quintette Coal of British Columbia. The Quintette mine's coking coal with a potential output of 5 million tonnes a year was aimed at a Japanese market which was over-estimated its growth. Railhaul costs put the coal well above world prices.

At the beginning of the decade, Willard Butcher, the chairman of Chase Manhattan, cheerfully forecast that the oil and gas industry alone would require around \$100bn a year for capital expenditure, during the 1980s.

Expensive

At the end of the 1970s, this made a great deal of sense. Offshore production was moving into deeper water. Synfuels as a substitute for oil was the research topic of the year and known to be expensive. Oil from tar sands was another developing technology. Both steam and coking coal volumes were expected to rise as oil was driven out of the industrial sector's demand.

The U.S. electricity utilities were still regarded as safe "widow and orphan" investments. Their difficulties with

nuclear power costing had yet to be recognised. Energy, in an atmosphere of scarcity, looked like a good investment.

In an atmosphere of glut, energy can still look like a good source of project loan business, providing you can get it. North Sea project finance has been going through a short six month lull just recently; a fact that makes it extremely difficult to judge precisely what conclusions the bankers have drawn about the oil price.

This is not to say that there has been little development activity in the North Sea, far from it, merely that most of it is being funded by the oil companies themselves. Nor does this imply that the banks are worried about such loans and have withdrawn from the battle. On the contrary, until mid-1984, the banks were falling over themselves to provide North Sea project finance.

In doing so, it is generally accepted that they increased the non-recourse elements in the loans and made pre-completion loans a standard feature of energy project finance for Norwegian and UK oil. In theory this increased the risks they took in a way that Continental Illinois might not have found acceptable. In practice they were defending their share of a diminishing loan market.

If it seems paradoxical that some banks might appear to be giving easier terms to some energy producing borrowers,

just when the outlook for the energy market looks bleak, it is wiser than it looks. If what has happened in energy project lending over the past can be summarised at all, it is that while the terms of the loans have got easier for certain borrowers, the criterion of choosing the borrower has got a good deal stricter.

In 1979 when oil was projected to hit \$35 a barrel in a few years, anyone with reserves could develop them with a project finance provided that they paid the pre-completion costs and agreed—particularly in the U.S.—to a strong element of recourse.

Out of ground

Risk seemed to be tied up in the development costs and the delay arising in getting the oil out of the ground. The developers were frequently prepared to take this risk so the banks could afford to be conservative about terms. Unfortunately the oil price criteria was false and in the U.S. in particular, recourse to the companies assets when payment intervals became extended frequently meant recourse to the oil production project itself because that was all that was available.

The same assumptions about the oil price influenced the rest of energy lending by more indirect means. Forecasts of coal demand depended upon it

and with demand came prices substantially above those that actually transpired.

Once again the risk for the banks over the eight years of project loan repayment was seen as slow development and the banks guarded against it, but not against the potential build-up of surplus capacity in the industry.

Precisely when the assumption of rising energy prices faded as an element in bank risk analysis is difficult to say. The Quintette mine agreement was signed in January 1983. However, the transition to a collective perception of energy glut reinforced two other trends in banking opinion.

The U.S. banks discovered that nuclear power could be very expensive when the Washington Public Power Supply System (WPPSS) defaulted on payments for \$2.2bn in bonds in July 1983. While not a project finance funded enterprise, one potentially lucrative target of such lending—nuclear power—disappeared with it.

The other trend was the growth of political risk. As the Organisation for Petroleum Exporting Countries (Opec) increased its grip on the oil market, the major oil companies began to be less integrated and to retreat in their upstream activities to more politically stable parts of the world. The potential supply of large projects in far away places began

to decline.

Equally the banks became fearful of the risks of rapid tax changes and expropriation. This too appears paradoxical, because if there is a point in paying a marginally higher rate of interest on project borrowing as opposed to straight corporate borrowing, it is to allow the bankers to take some of the risk.

All too frequently, as with Elf in Angola or Phillips in Ivory Coast, the oil majors wanted project finance in areas of high political risk and some difficulty finding it.

In comparison, areas like the North Sea with comparatively little political risk attracted large numbers of potential project lenders. But here some majors saw little reason to pay higher margins and funded much of the activity themselves.

The result from the oil industry's point of view was often an attempt to link high political risk project lending with a slice of the North Sea action. The result from the bankers' point of view was to increase competition in project finance in stable areas; hence the increase in limited recourse lending and pre-completion loans.

With project lending on North Sea projects in a period of lull, the future pattern is difficult to read. None the less some bankers are becoming

more cautious. While the fall in the oil price itself is difficult, its impact is principally to extend the period of the loan.

The banks specialising in this kind of finance, notably Citicorp, National Westminster, Morgan Guaranty and among the smaller banks, Grindlays, will have run estimates of potential pay back periods based upon far lower prices than those prevailing at present. They will know the parameters of risk.

More crucial is the timing of the risk falls on the project itself as the loan comes to be guaranteed against the company. If the oil price calculation is wrong at this point, maybe three years into a new project then things can get difficult. While for a large company there really is no such thing as a totally "non-recourse" loan, for smaller borrowers there can be problems.

Larger risk

This pinpoints a risk larger than that of the falling oil price; the problem of taxation. While tax is now lower than it has been in the North Sea, bankers have to assess probabilities in ten years time. Precisely because tax is now low, it is by the probable that it will rise than fall.

In addition smaller companies, perhaps buying in so fields like Forties and borrow-

ing to do so, make the assumption that much of their petroleum revenue tax (PRT) can be offset against further exploration and development. The PRT bill comes around twice a year.

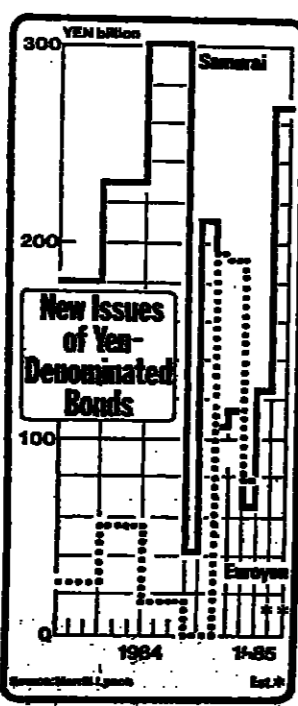
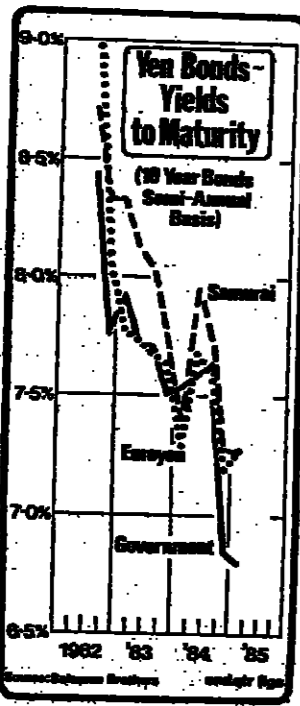
If the major partner in such future development slows down a little, the smaller borrowers can be caught having to pay the bill out of cashflow previously assigned to the tax credits created by past development of mature fields are beginning to run out.

This said, it is extremely unlikely that a seasoned oil company will not meet a wide open door when it looks for project finance to lay a little of the risk on the bankers. The energy glut has narrowed down the range of potential projects, but left in some quarters considerable expertise in energy that the banks want to use.

Corporate risk is less interesting. Syndicated lending can be less profitable and, as one bankers put it "project finance lending is just more exciting."

As BP another oil companies move towards "disintermediation" and cut out the banks, some banks are fighting back by acquiring significant oil expertise. Who will take more of the project risk over the next decade is a matter for very detailed negotiation.

Chris Cragg is editor of FT Energy Economist.



Period of change

Yen Bonds

MAGGIE URRY

THE YEN bond markets are going through a period of change. They are gradually being opened up by the Japanese Ministry of Finance, following pressure from the U.S.

Late in 1983 a committee of U.S. and Japanese finance officials was formed to discuss the liberalisation of the Japanese financial markets. A report published in May last year included a step-by-step programme to extend the range of borrowers allowed to tap the bond markets and loosen the rules for making issues.

Changes were planned both for the Euroyen market—bonds issued on the international market—and for Samurai bonds—those launched on the domestic bond market by foreign borrowers.

As a result, the European market—which had been the preserve of top-rated supra-national and sovereign borrowers since opening in 1977—can now be tapped by a range of corporate borrowers both Japanese and foreign.

Since December 1 1984, when the market was opened to non-Japanese corporate borrowers with at least a single A credit rating, a flood of such issues has appeared, with rivals scrambling to be first in. Most deals have been for U.S. companies, able to swap the proceeds back into dollars at attractive rates.

As a result, the market has become somewhat overloaded with paper, for though the borrowers were ready for the market's opening, there has not yet been a sufficient build-up in investor demand.

While it was expected that the usual Eurobond investors would also buy Euroyen issues, dealers question whether much of the paper has been effectively placed with end investors. The yen has suffered along with other currencies from the strength of the dollar, which has attracted investors into Eurodollar bonds. Only recently have investors begun diversifying away from dollar investments.

Also Euroyen issues generally offer yields around 7 per cent, which is low by Eurobond standards. Higher yields are available even in the Deutsche-Mark bond market.

Yields on Euroyen issues are lower than in the domestic Japanese bond market, although it is difficult for small foreign investors to deal in domestic issues.

So far Japanese companies have not tapped the Euroyen market even though permission

was given to 30 companies to make fixed-rate bond issues, and to 100 companies to make issues convertible into equity.

As yet the Ministry of Finance has not lifted the 20 per cent withholding tax levied on the interest paid on issues from Japanese borrowers. The tax would have to be paid by the borrower, so raising its cost of funds, if investors were to be attracted in. But this tax is expected to be repealed from April 1 this year, and already a number of Japanese companies are lining up to make issues.

The rule changes also allowed non-Japanese securities houses to lead manage Euroyen issues. However, most of the Euroyen issues made so far have been led by one or other of the big four Japanese securities houses. The major European and U.S. issuing houses have made bids for business, but have met with little success.

The market has been hampered recently by fears of an increase in Japanese interest rates to support the currency. After the rush of Euroyen issues in December and January, a lull in activity has followed.

Despite the inauspicious start to the more open Euroyen market, bankers are optimistic that the sector will become an important one in the Eurobond market.

The Samurai market has not been killed by the widening of the Euroyen market by any means. As is the Euroyen market, conditions have not been favourable of late, and a number of new issues have been postponed in the last couple of months. However, a record level of issues are expected in April with 10 borrowers due to make issues totalling ¥250bn or more.

This market is mainly used by international agencies and sovereign borrowers, although a handful of U.S. companies have issued Samurai bonds. The Ministry of Finance exerts greater control over this market than over the Euroyen market, but this too has been subject to liberalisation moves.

The queuing system, where borrowers had to register with the Ministry for an issue, has been abolished and there is now no maximum size for an issue from a top-rated, AAA borrower. Lesser rated borrowers—down to single A—can also make Samurai issues.

The market has been used by China for its first post-Revolution bond issues. Two deals—a ¥20bn issue by the Bank of China in 1984 and a ¥30bn issue for China International Trust and Investment in January 1985—should pave the way for that country's rehabilitation in the international bond markets.

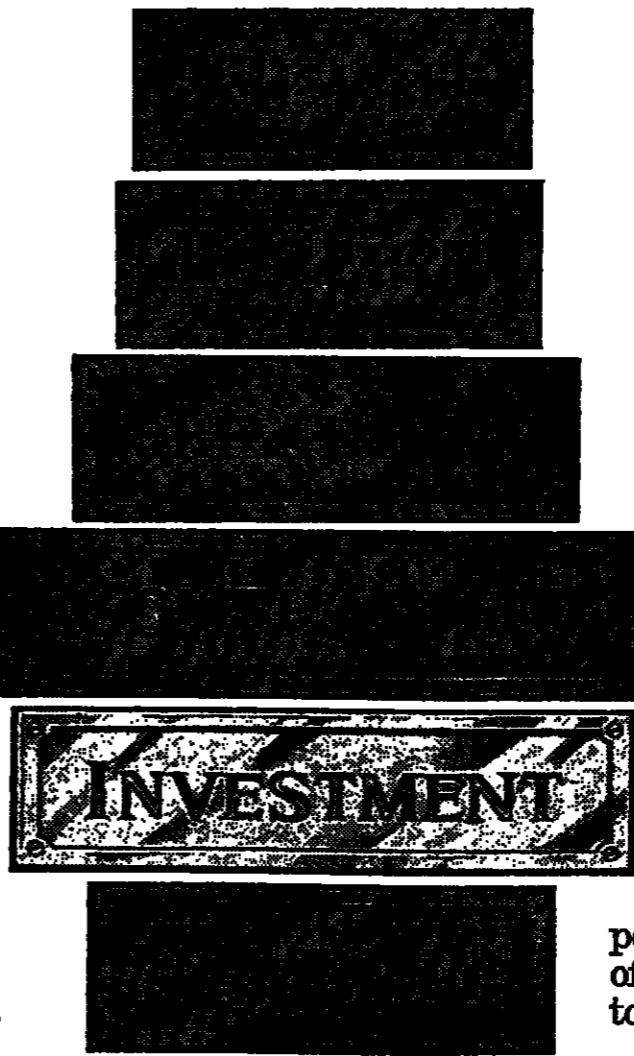
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International Capital Markets 14

Record turnover achieved despite some traumas

Fixed-interest
Eurodollar Bonds

MAGGIE URRY

DESPITE some traumas the Eurodollar fixed rate bond market broke all records last year. Not only was new issue volume up from \$19.1bn to \$27.4bn (according to Merrill Lynch figures) but secondary market trading was at record levels too.

Yet last summer some bankers were predicting the end of the market, following the repeal of U.S. withholding tax. That tax had been levied on interest payments made to foreign holders of U.S. bonds, and its removal, some argued, would entice the buyers of Eurobonds to buy directly from the U.S. and pick up higher yields in the process.

That has not happened yet, and many bankers say it will not happen. The effects of the tax change have been nothing like as monumental as some experts believed—so far. The longer term effects are yet to be discerned.

The tax changes were accompanied by a massive set of new regulations covering Eurobond

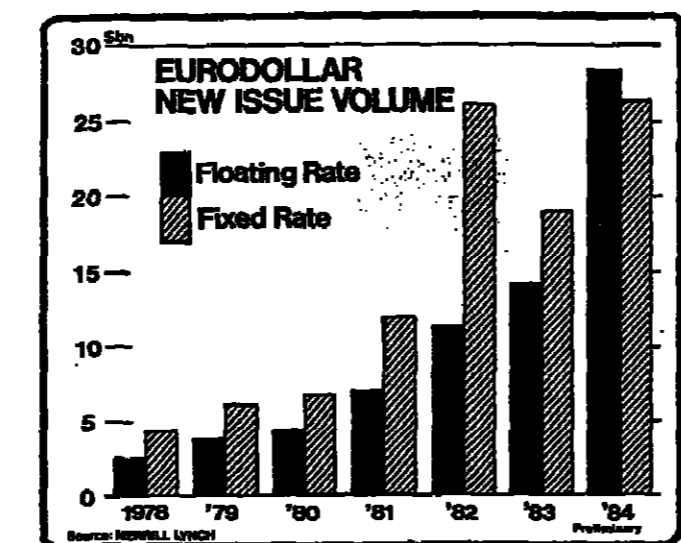
issues by U.S. companies and the U.S. Treasury itself. As a result of these, corporate borrowers can now make issues of bearer bonds—bonds where the actual certificate is evidence of ownership and there is no register of holders—direct from the U.S. rather than via an off-shore subsidiary.

The regulations have also resulted in the issue by the Treasury and some of the Government agencies, of bonds targeted at overseas investors. These cannot be made in bearer form but must use a special registration system. Effectively the bondholder is anonymous, but the U.S. Internal Revenue may at some time require proof that the holder is not a U.S. person.

That has deterred many of the traditional buyers of Eurobonds from investing in these "Targeted Treasuries" and the two issues made—far have not met with a good response from end investors.

It remains to be seen whether the programme of overseas sales, which the Treasury committed itself to, will continue on the same basis.

But now the Eurodollar bond market is faced with another threat—the possibility that the rise in the dollar will be reversed. Investors based in currencies other than the dollar have had a bonanza over the

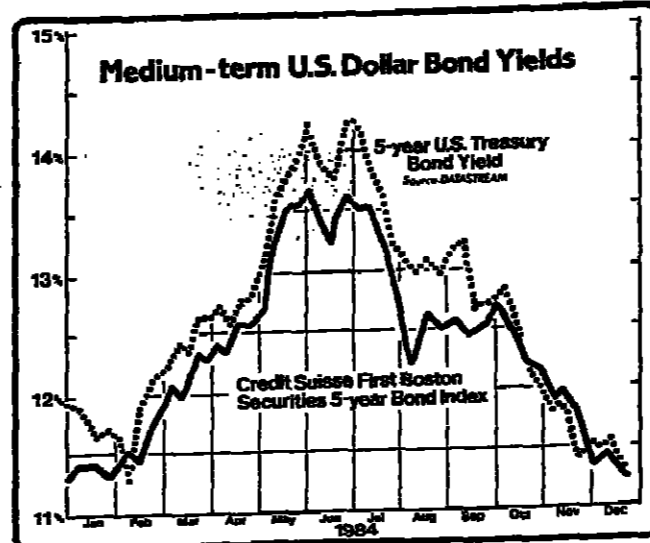


last few years. Not only have dollar bonds offered high yields—coupons on new issues reached 14 per cent last summer—but there have been spectacular gains to be made by buying the dollar.

Although yields remain in double figures, there is the strong chance of a fall in the currency so reducing non-dollar investors' profits. If they turn their buying power to other currency sectors, the number of new dollar issues will have to

fall. Borrowers will have to raise money in other currencies, and use swaps if they need dollars, or else tap the U.S. domestic bond market.

There is no doubt, though, that the Eurodollar fixed rate bond market has matured significantly in the last couple of years. The size of issues has grown—with Salomon Brothers leading management a \$1bn three-tranche issue for the U.S. Prudential Corporation towards



the close of 1984.

The techniques of pricing and selling issues have also become much more of a science. And lead managers have had to work harder in designing new ideas to attract investors.

Fierce competition between the issuing houses has pared their profits to the bone. New issues have generally traded at a level where most of the commission due to the syndicate managers has been handed over to investors.

Even during a period of falling interest rates—such as last autumn—investment bankers were pushing down new issue yields ahead of the decline in rates. That often meant that paper was left on underwriters' books until market rates had caught up, and the positions could be sold profitably.

In the first months of this year, new issue managers could not even do that. Fears and some signs of rising interest rates have led to a "buyers

strike." As a result a quantity of new paper, often priced just below the market, remains on underwriters' books.

The investment bankers response is to come up with more imaginative types of issues. These often become fashions for a short while, a series of issues appears carrying the new feature, then the market decides it has had enough, a few last deals are done and a poor response, then they fade.

Last autumn saw just one such fad—warrant issues. Even then fears that the dollar's upward trend would reverse encouraged investors to buy debt warrants—a low cost investment which gives the holder the right to buy a bond sometime in the future, usually with a coupon rate close to current market levels.

Adding a warrant to a bond issue not only helped to sell the bond, but added some value to enable a swap to be arranged at a time when swaps were hard to fix.

For a time nearly every issue came with warrants, and as the market began to tire of them, the warrants became more and more attractive, with one eventually warrant prices crashed and the fashion was dead—for a while at least.

Another short-lived craze was

the issue of zero-coupon bonds, where the borrower used the proceeds to buy U.S. Treasury bonds turned into zero coupon bonds by stripping the coupons, which were then sold separately.

The yields on these stripped Treasuries were often a point higher than those on Eurodollar zero issues, allowing the borrowers to make a tidy profit without putting a hefty bond issue on to their balance sheets.

Fashions change fast, and the new season's lines are already beginning to appear. Convertible issues—where the fixed rate bond can be switched into the borrower's shares at a predetermined price—could become a significant part of the new issue volume this year.

Investors can benefit from a rise in the stock market, while still taking a higher yield on the bond than they would on the company's shares.

Another likely trend is the issue of warrants to switch into a bond, denominated in a different currency. By setting the exchange rate for the purchase of the new bond at current levels of the dollar, the investor is protected from a fall in the exchange rate.

But nothing will help the fixed rate Eurodollar bond market to a further record year in 1985, if there is a sustained bear market caused by rising interest rates.

Rapid growth and broader appeal

ECU Bonds

MAGGIE URRY

THE EUROPEAN Currency Unit is now one of the most important currency sectors in the Eurobond market. In 1984 the ECU ranked fourth after the U.S. dollar, the Deutsche Mark and sterling in terms of the value of new Eurobonds issues raised in the currency. Yet the first ECU Eurobond issue was as recent as 1981.

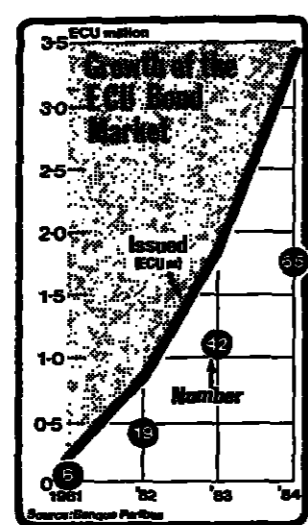
The ECU is the currency unit of the European Community, and is a basket made up of the currencies of individual member-states, weighted according to their relative importance in the Community's trade. It was created by the EEC in December 1978 and officially launched in March 1979, becoming the Community's sole unit of account in January 1981. It has, therefore, the official backing of the EEC.

The growth in the ECU bond market mirrors the increasing use of the ECU by the international banking system, and the greater understanding of the unit as a currency which both borrowers and investors wish to use.

The ECU bond market is not simply growing, it is also broadening. The last year has seen many developments in the type of instrument issued, as well as in the kind of borrowers and investors.

The first ECU bond issue was launched in 1981 for Société Financière pour les Télécommunications de l'Electronique, guaranteed by the Italian state telecommunications agency. The lead manager for the issue, Kreditbank, was able to increase it from ECU 25m to ECU 35m due to strong demand.

Initially buyers of ECU bonds were mainly retail investors in the Benelux countries, and the Belgian and Luxembourg-based banks were dominant in issuing the bonds. The borrowers were mainly European institutions or countries, and the bonds were usually straight-forward fixed rate issues.



Now a wider variety of investors are attracted by the market. Many expect that the strength of the dollar over recent years may soon reverse or at least stabilise. As a result they are looking for a currency diversification away from the dollar.

ECU bonds offer a much higher rate of interest than Deutsche Mark bonds, the more obvious choice.

Although they have been falling over recent months, yields on ECU bonds are around 10 per cent, compared with some 7½ per cent for D-Mark issues. While the D-Mark is likely to be a stronger performer against the dollar, once the exchange rate trend turns, the ECU as a basket offers a less risky investment than picking out one currency. As the D-Mark forms around one-third of the ECU's value, the ECU largely follows the D-Mark's movements.

Investors in Switzerland and Japan for example have taken a greater interest in the ECU bond market. Institutional investors are also becoming significant buyers of ECU bonds.

An important development, last November, was the first bond issue in the U.S. domestic bond market denominated in ECUs. The issue, for EEC, attracted good demand and was

increased from ECU 150m to ECU 200m.

The main buyers were the more sophisticated institutional investors in the U.S. More such issues are expected.

Issues have also been made aimed at Swiss investors, and lead-managed by the major Swiss banks. This year an issue structured for French investors was a great success.

This issue, for the European Investment Bank, was the first since 1981 when French investors were allowed to buy such paper without going through the foreign currency premium. About 80 per cent of the ECU 200m issue was placed with French investors.

Similarly the Italian Treasury has made bond issues in ECUs largely on the domestic market, but with a small portion available in the Eurobond market.

The borrowers, too, are becoming more diverse. Although eight issuers still account for around 40 per cent of the market, and are mostly European institutions, there is an increasing number of other borrowers. French and Italian borrowers, lacking a Eurobond market in their own currencies, are also big issuers of ECU bonds.

Corporate borrowers have made use of the market, such as Heron International, the private UK company Chrysler and the Japanese Seton Paperboard. Multinationals with operations in Europe are finding that borrowing in the ECU is simpler than financing their businesses by raising loans in the individual currencies.

As well as fixed-rate bond issues, floating-rate notes are becoming more common in the ECU Eurobond market. There are still only a handful of such issues, floating-rate notes are tional and bank investors coming into the market a greater demand for floating-rate issues is surfacing.

As the market expands and more banks enter the field as lead managers, there is also a more important secondary market in ECU issues. Lead managers tend also to be market makers, but other banks, including British, U.S. and Japanese houses, have started

trading ECU bonds. This in itself encourages more investors into the market, attracted by the improved liquidity.

ECU interest rates are not merely a weighted average of the rates for each individual currency, though they do approximate to that theoretical average. Other factors of supply and demand also influence interest rates. Actual ECU yields have been higher than the theoretical value, but this spread has been narrowing.

Yields on ECU bonds have actually been coming down over the past year and the bond market has been able to cope with the increasing volume of issues quite comfortably.

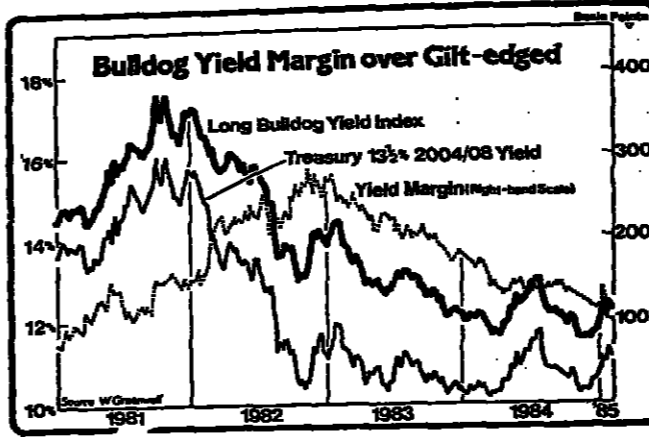
In the last few months of 1984 the market shrugged off the revision of the basket weightings, which included the introduction of the Greek drachma to the system, relatively easily. New issues with open pricing often had their terms set tighter than expected, and some issues were increased in size.

However, in common with much of the Eurobond market in the early months of this year, the ECU market ran a little ahead of itself and in response new issue coupons, which had gone down to as low as 9½ per cent, have risen again to the 10 per cent area.

Nevertheless, the market is considered by many bankers to be one of the fastest expanding areas of the Eurobond market.

Composition of the ECU basket

Currency	% of ECU (since September 1984)
Deutsche Mark	32.19
French Franc	19.15
Italian Lira	16.11
Dutch Guilder	16.17
Belgian Franc/Lux. Franc	8.29
Danish Krone	2.72
Irish Punt	1.21
UK Sterling	14.90
Greek Drachma	1.25



Bulldog yield margins over gilt-edged Treasury 15½ per cent 2004-08 have narrowed as demand for the limited amount of paper has pushed up prices.

Sterling Bonds

MAGGIE URRY

THE STERLING bond markets have certainly come of age in the past year or so. Despite the weakening currency the markets have remained open almost continuously to borrowers, while investors often find a shortage of available paper.

Within the overall sterling bond market there are two distinct sectors—Eurosterling issues and Bulldog bonds. Eurosterling bonds, like other Eurobonds, are mainly bought by international investors, often retail investors, and generally have a life in the five- to 10-year range. Borrowers of all types, supra-national, sovereign and corporate both UK and foreign, can tap the market.

Bulldog bonds are those issued by foreign borrowers on the UK domestic bond market, and are traded alongside the UK government bond market. These usually have a much longer maturity—around 25 years and are, by and large, bought by UK institutional investors.

New issues in this market are tightly controlled by the Bank of England which operates a queuing system and imposes a maximum issue size of £100m.

As the UK Government has been unwilling to tap the long end of the bond market, partly to reduce its borrowing costs and also to encourage UK corporates to return to the bond market, institutional investors have turned to Bulldogs for long-term high yielding paper.

As one banker put it "investors no longer say 'Should I have a Bulldog in my portfolio?' they say 'How should I structure my Bulldog portfolio?'"

Dominant

As a result, the market's perception of the credit risks of international borrowers has matured, and yields on the different issuers' paper reflect more accurately their ratings. Added to that, yield margins over the benchmark gilt-edged Treasury 15½ per cent 2004-08 have narrowed as demand for the limited amount of paper has pushed up prices.

It is now common for a new Bulldog issue to be oversubscribed at issue as investors scramble for the paper. However, bankers are not optimistic that the Bank of England's imposed maximum issue size will be increased. As a result many issues are now priced and documented to allow further tranches of the same stock to be issued to increase the trading liquidity in an individual issue.

The World Bank, for example, issued a second tranche of £100m last August to add to an issue of £100m made the previous November. The two will become one £200m stock in April this year.

The second issue was priced at a finer margin—of 85 basis points compared to 100 basis points—over the benchmark gilt-edged stock.

The queue for new issues is now around a year long, although many borrowers do drop out when it comes to making the issue, allowing others to be promoted in the list.

The first months of this year have seen a virtual halt on Bulldog issues as sterling's fall has upset the bond markets. An issue for Spain, which had been planned to be launched in mid-January, was delayed when the Bank of England reintroduced Minimum Lending Rate on the day. However, despite a further rise in interest rates and fall in the exchange rate, the issue was successfully launched in February.

Fixed rate Eurosterling bonds from top class borrowers now yield quite a bit less than UK Government bonds with the same maturities. In recent months the sector has been boosted by heavy foreign buying of the stocks, as investors have looked for alternative currencies to the dollar. Not only is sterling perceived to have reached bottom against the dollar (although that low

keeps moving even lower) but yields in the Eurosterling market are as high as dollar rates.

The market has broadened to include many different types of bonds. As well as the plain vanilla fixed rate issues, convertible issues and bonds with equity warrants have been launched.

The Eurosterling floating rate market has also developed along the lines of the dollar market. Investors are mainly banks with UK branches looking for assets denominated in sterling.

Yields over the benchmark banking interest rate, London inter-bank offered rate, have narrowed and commissions shrunk as borrowers have been able to extract finer terms. The floating rate was used earlier this year for the first bond issue to finance the purchase of UK mortgages. The success of the £50m issue, made by a vehicle company incorporated solely for the purpose of investing in a pool of 1,200 residential mortgages, could lead the way to many more such deals.

In the Eurosterling market, too, issue size is restricted to £100m. However, the limit can be circumvented if borrowers attach a tap to their initial borrowing. Lloyds pioneered this route with its floating rate issue last July, which had a £100m initial tranche with a £100m tap.

The sterling bond primary markets are still heavily dominated by the UK banks, with the Bank of England

restricting the management of Bulldog issues to British banks. Eurosterling issues can be lead managed by foreign owned banks, if they have an underwriting capability in sterling instruments.

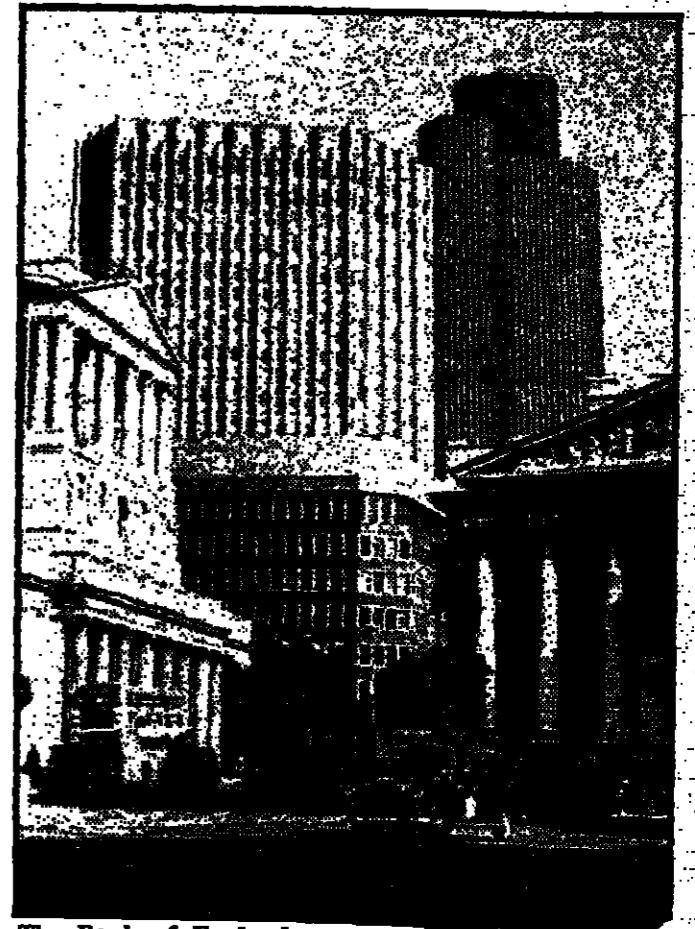
Coming down

Some foreign houses have run the books on Eurosterling issues, though with a British bank as a co-lead manager.

The markets have become more attractive to British investors since the Government brought the capital gains tax treatment of sterling bonds into line with the rules for UK Government bonds. Investors who hold bonds denominated in sterling and listed on a UK stock exchange, which do not have conversion rights, will not pay capital gains tax if the bonds have been held for more than a year. The ruling applies to bonds bought after March 13, 1984.

Eurosterling and Bulldog bonds also have the advantage over UK Government stocks of paying interest gross and not net of income tax.

There seems little doubt that the market for both types of sterling bonds will continue to expand. The market's resilience in the face of a falling exchange rate and rising interest rates is impressive. Yet the borrowers the UK authorities would most like to see in the market—UK companies—have largely avoided it.



The Bank of England: new issues of bulldog bonds are tightly controlled

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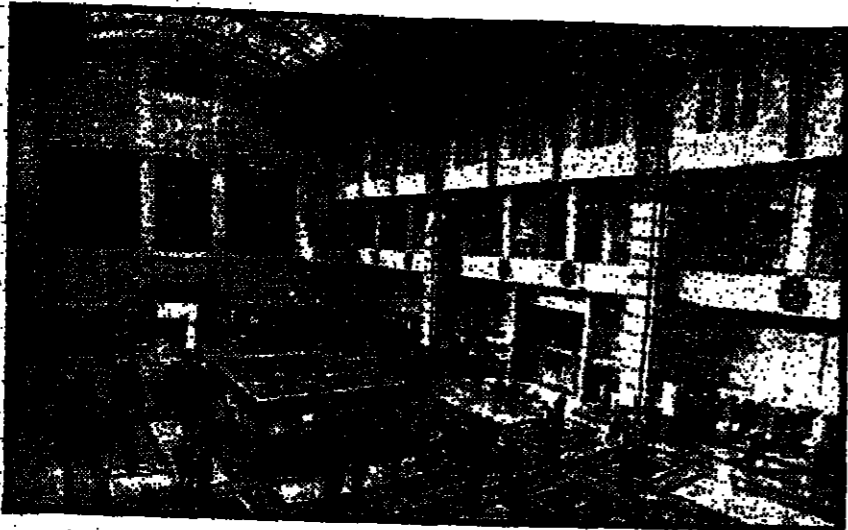
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Amsterdam Stock Exchange and (right) the foreign exchange dealing room of AMRO Bank



Central Bank's tight rein is eased

Guilder Bonds

LAURA RAUN

THE bankers along Amsterdam's Herengracht canal and across town at the Dutch Central Bank have historically run Holland's capital markets in a cosy, gentlemanly manner reminiscent of a club. But recently Amsterdam's Rotterdam Bank (AMRO) joined its colleagues by teaming up with Honda Motor Co. of Japan to offer the first-ever equity-linked Euroguilder note.

The novel note issue with two warrants attached signifies a surprising loosening of the Central Bank's tight rein on the Euroguilder market and could lead to even further changes.

The Nederlandsche Bank, the central bank, insists that it will continue to define limits for the Euroguilder market but a supplier touch is clearly evident.

AMRO's innovative instrument is noteworthy in the Dutch capital market, which still reflects the businesslike, conservative atmosphere emanating from Holland's "golden age" of the 17th century. Many of the stately canal houses which then testified to the business acumen of Amsterdam's burger elite now house Holland's big banks.

The Nederlandsche Bank works hand-in-hand with the commercial bankers to closely regulate the credit markets in a policy aimed at maintaining the guilder as a strong currency and fostering orderly trading. Capital flows in and out of the

Netherlands, however, are perhaps the freest on the continent. Nevertheless, the Central Bank controls the markets for domestic bonds, Euroguilder notes and private placements by approving the size, maturity and timing of most issues. Like the Japanese, the Dutch do not want their currency to become so international as to lose control over its value.

But the Central Bank's paternalistic role is tempered by pragmatism and that is why AMRO was allowed to offer its unique equity-linked Euroguilder, a competing banker explained somewhat enviously.

Apparent success

Honda floated Fl 100m (\$26.32m) of 3½ per cent five-year notes carrying two warrants, each of which gives the holder the right to buy 241 Honda shares at a price 2½ per cent above the market price beginning May 8. Given the apparent success of the issue, similar paper seems likely to follow.

Besides carrying warrants, another novel aspect of the Honda note was that a prospectus was issued, even though it was a private placement issue, as are all Euroguilder notes.

In private placements, top-notch banks, brokers and dealers are invited—traditionally by telex—to subscribe and the issue closes when all the paper is placed.

Moreover, it has been speculated that the Honda notes themselves may eventually be quoted on the Amsterdam Stock

Exchange. In the past the secondary market in Euroguilder notes has been maintained by the lead manager of the issue.

Signs are that the Central Bank is easing its grip on the volume of the Euroguilder market, which began in 1980. The Nederlandsche Bank's presumed policy was to allow borrowers to tap the market each year for about one-fifth of the total Fl 9bn in outstanding notes. That is because Euroguilder notes normally carry a five-year maturity so about 20 per cent come due each year. But borrowings surged from Fl 1.98bn in 1983 to Fl 2.3bn last year, where they are expected to stabilise during 1985.

Meanwhile, the domestic bond market continues to amble along under the overwhelming domination of Dutch Government loans. The State, which does not borrow abroad, accounts for more than 80 per cent of all new public bond issues.

After years of escalating budget deficits, the centre-right Government of Prime Minister Ruud Lubbers has finally arrested public spending and reduced the fiscal gap. The budget deficit is expected to narrow to 8.4 per cent of net national income (NNI) this year, from 9.4 per cent last year. The public sector borrowing requirement is forecast to fall slightly from Fl 44.8bn to Fl 44.2bn.

Given the State's marginally smaller borrowing requirement and the improving health of the Dutch economy, there is some

hope for an easing in interest rates. The balance of payments surplus on the current account, which has ballooned in recent years, is expected to rise again this year from Fl 15bn to Fl 17bn.

Furthermore, the Dutch savings ratio is notably high because of forced savings through mandatory pension plans. This propensity to save has avoided the "crowding-out effect" which often pushes up the cost of money as the Government competes with individuals for credit.

Forced savings

Pierson Holding Pierson, a merchant bank subsidiary of AMRO, however, predicts that the West German bond market will perform better than the Dutch market this year due to the German Government's sharply falling borrowing requirements.

German bonds and Dutch bonds are usually viewed as alternatives because of the close alignment of their interest rates and currencies. But international interest rates are nearly always the deciding factor for the wide-open Dutch economy, in which foreign trade makes up more than 60 per cent of gross domestic product.

In recent weeks the soaring dollar has sharply forced up interest rates in the Netherlands, as in the rest of the world. Moreover, the guilder has weakened significantly in the European monetary system due to the Nederlandsche Bank's more liberal monetary policy than the West German Central Bank.

While Nederlandsche Bank is sometimes more accommodating in monetary policy than Deutsche Bundesbank, the Dutch Central Bank likes to keep Dutch interest rates in tandem with German rates.

Thus the Dutch discount rate was raised a half percentage point to 5½ per cent on February 1, the first such hike in nearly 1½ years, following West Germany's Lombard-rate increase.

Dutch interest rates, however, usually carry a 1-2 percentage point premium over German rates due to the guilder's weaker position vis-à-vis the D-Mark.

Since the end of January short-term interest rates have surged as much as 140 basis points and the Government's latest bond issued carried an 8 per cent coupon, up from 7½ per cent on the first two offerings this year.

Commercial banks have imposed a half percentage point surcharge on their lending fees and are considering another half-point rise if the dollar continues climbing.

This bout of rising interest rates halted the bond market's ascent, which saw the Central Bureau of Statistics' bond index recently reach a record high along with the share market.

The bond market was buoyed by declining rates for much of last year and a feared exodus out of guilder bonds and into Deutsche Mark bonds never materialised. Market participants had worried that West Germany's repeal of its withholding tax on D-Mark bonds would draw funds out of guilder bonds.

Foreign borrowers are much in evidence

Swiss Franc Bonds

JOHN WICKS

SWITZERLAND remains one of the world's most abundant sources of capital. Last year, foreign Swiss-franc borrowings reached a new record of SwFr 40.94bn—the equivalent of over US\$17.4bn at average dollar exchange rates—and have stayed at a high level during the first two months of 1985.

International borrowers are in evidence particularly in the bond and note markets. In 1984, the amount of new money raised by foreign Swiss-franc bonds jumped to a peak of SwFr 11.15bn. This was more than double that recorded for as recent a year as 1980, as well as being substantially more than the SwFr 6.9bn accounted for by the corresponding net proceeds (issue sum minus re-financing) of domestic flotations.

Even more considerable are the amounts raised by medium-term notes in the form of private placements. In this market, a preserve of foreign—and especially Japanese—borrowers, no less than SwFr 74bn has been raised in new money over the past five years. There now seems to be something of a stabilisation, however, and last year's figure of SwFr 19.46bn was rather below the 1983 record.

The remainder of the foreign borrowings total approved by the Swiss National Bank is made up of finance and export credits granted by the banks. These fell to a six-year low in 1983 but have since been picking up, largely as a reflection of the improved world economy.

Indeed, it is not self-evident that the Swiss capital market should go on growing the way it has. From the investor's point of view, the Swiss franc is much less immediately attractive than during the long years of its upswing, early this year, its trade-weighted exchange rate was at the lowest level since autumn 1982, while the currency has also lost some of its traditional low-inflation differential.

With bond and note coupons of up to 6½ per cent, fixed-interest investments still show

up well against a 4 per cent inflation rate. However, much better returns are naturally obtainable in the dollar sector, quite apart from the recent massive exchange rate profits.

The Euro-Swiss franc has also risen with the rest of the Euro market, while growing competition from within Switzerland itself has recently included increased rates on time deposits and the banks' own medium-term, over-the-counter bonds ("Kassenobligationen").

At the same time, Swiss shares have been booming and it seems that not a few major listed companies will be improving their dividends.

For all these rival attractions, both domestic and foreign issues remain in great demand with the international investing public. Apart from the broad selection of Swiss-franc paper with long and medium-term maturity, there is obviously the conviction that Switzerland's traditional prosperity and the hardness of its currency is worth backing.

Under-subscriptions seem to be a thing of the past—even though the secondary market for modestly-priced issues is not much to write home about.

From the borrower's point of view, Swiss issues are still relatively cheap and there is no longer the widespread fear of currency losses on redemption.

After long being one of the more conservative markets, the Swiss franc sector now also offers any number of borrowing patterns, from dual-currency and floating rate issues, through

convertible and warrant loans, to such exotics as this month's 60-year issue of SwFr 200m by the American company CFC International.

There are some signs that business might be slowing, though. Two potential foreign borrowers have already postponed bond issues this year so as not to have to pay 6 per cent in what might again soon prove an upwardly-mobile currency.

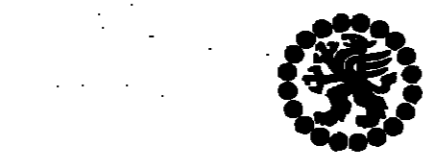
As yet, however, there has been no general decline in keenness to borrow Swiss francs; indeed, the Commonwealth of Australia is currently (until March 23) floating a total of no less than SwFr 500m in a two-tranche private placement.

Whatever the case, the Swiss capital market is hardly threatened by a concentration of bad debts. Domestic creditors are rarely other than copper-bottomed, while foreign borrowers are usually carefully chosen. (Not all private placement addresses are first-class, but investor risk has been lessened by the improvement of the underwriters' information practices.)

An idea of the cautious lending policies of the Swiss is given by latest National Bank statistics. These show that in 1984 almost three-quarters of total foreign borrowings (bonds, notes and bank credits) went to Western industrialised countries and a further 14 per cent to the World Bank and other international development organisations. Only the remaining 12 per cent was lent to developing and planned-economy countries and the OPEC block.



A foreign exchange dealing room in Zurich



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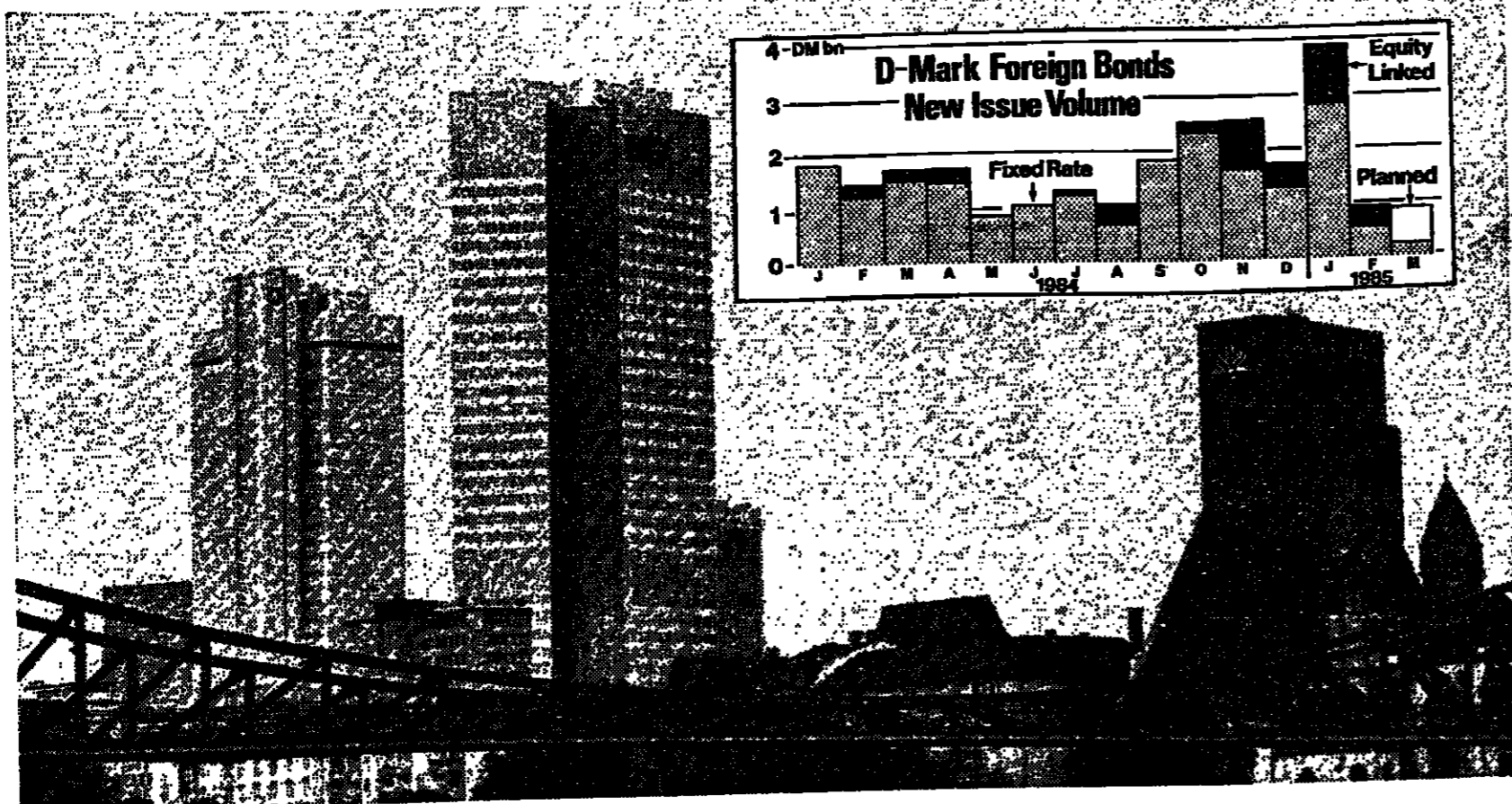
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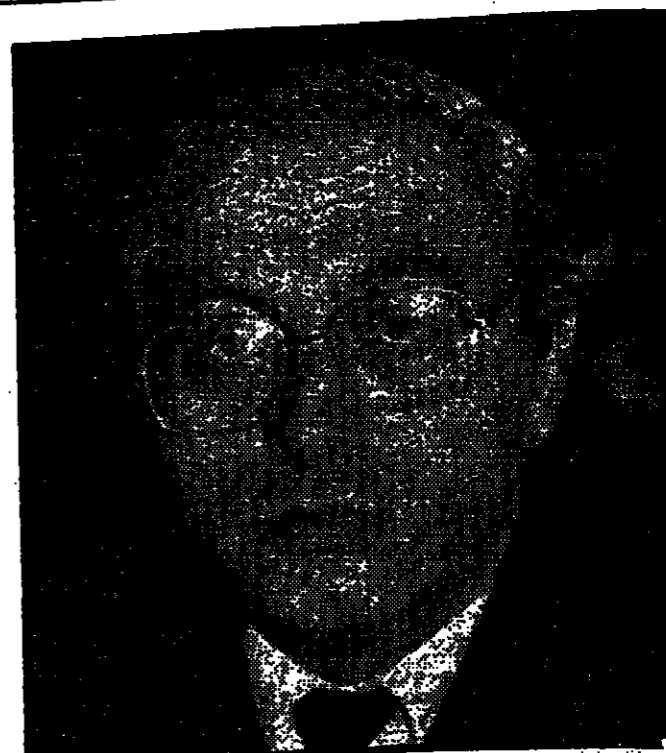
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LEFT: The skyline of the banking centre in Frankfurt: the German banks are not keen to open up their market to foreign banks, particularly at a time when new issue volume is being restricted. RIGHT: Herr Karl Otto Poehl, president of the Deutsche Bundesbank, which is beginning to open up the German capital markets in response to the increasing internationalisation of the world's financial system. BELOW: The Bundesbank: one of its first moves toward liberalisation of domestic markets has been the lifting of withholding tax on foreign holders of domestic bond issues.



Tight control by the Bundesbank

Deutsche Mark Bonds

MAGGIE URRY

UNLIKE MANY other currency sectors of the Eurobond market, Deutschmark-denominated Eurobonds are still fairly tightly controlled by the financial authorities of the currency's home country.

The restrictions reflect the Bundesbank's desire to maintain control over the currency, a desire which has also slowed the acceptance of the European Currency Unit in West Germany.

However, the Bundesbank is beginning to open up the German capital markets in response to the increasing internationalisation of the world's financial systems. One of the first moves was the lifting of withholding tax levied on foreign holders of domestic bond issues. This repeal followed the same move made by

the U.S. authorities last summer.

The withholding — or coupon tax — had been at a rate of 25 per cent, effectively discouraging investors from buying domestic bonds. Those investors were the mainstay of the D-mark foreign bond market.

The tax repeal was intended to boost capital inflows to West Germany and so help to maintain the currency's value against the strong dollar. To some extent the move worked and inflows to the domestic markets increased — leaving less money to chase the supply of issues in the foreign bond market.

The D-Mark/dollar exchange rate has continued under pressure, however, giving investors another reason to avoid the foreign bond market. In recent months that market has suffered an imbalance between the supply and demand for paper which has pushed interest rates up and resulted, in February this year, in a ban on new fixed rate foreign bond issues.

Whereas in the Eurodollar bond market there is no control over the number, size and

timing of new issues, the D-mark foreign bond market has an issue calendar. This is set every few weeks by a sub-committee of the Central Capital Markets Committee.

The sub-committee consists of representatives of the major issuing banks — Deutsche, Dresdner, Commerzbank, BHF Bank, Bayerische Vereinsbank, and Westdeutsche Landesbank — plus a senior representative of the Bundesbank.

So when conditions in the market deteriorated badly the sub-committee could call a halt to new deals. The calendar does not, however, include equity-linked issues — convertible bonds and bonds with equity warrants — and some such deals were brought during the new issue moratorium.

The sub-committee is the centre of attention for the Bundesbank's next move to liberalise the market. At present all the members are German banks, and other German banks must negotiate with these members for a date on the calendar if they wish to lead manage an issue.

Foreign banks, however,

even if resident in Germany, cannot ask for a place in the queue and so cannot lead manage foreign bond issues.

Other countries are opening up to foreign banks though, usually on a "reciprocity" basis. If German banks are to move into those markets, the German market must be opened up to banks from those countries.

The major German banks are not keen to have the market opened in this way, particularly at a time when issue volume is being restricted. They argue that allowing foreign banks in would weaken the control over issue timing.

After a year when yields had been falling in the D-mark foreign bond market, the fall has been reversed in the early months of this year. The rising dollar, and an expectation that U.S. interest rates will rise once more, has disturbed the German bond market.

For instance, an issue due to be launched on February 13 for the Inter-American Development Bank, which was postponed when the new issue ban was imposed, reappeared on

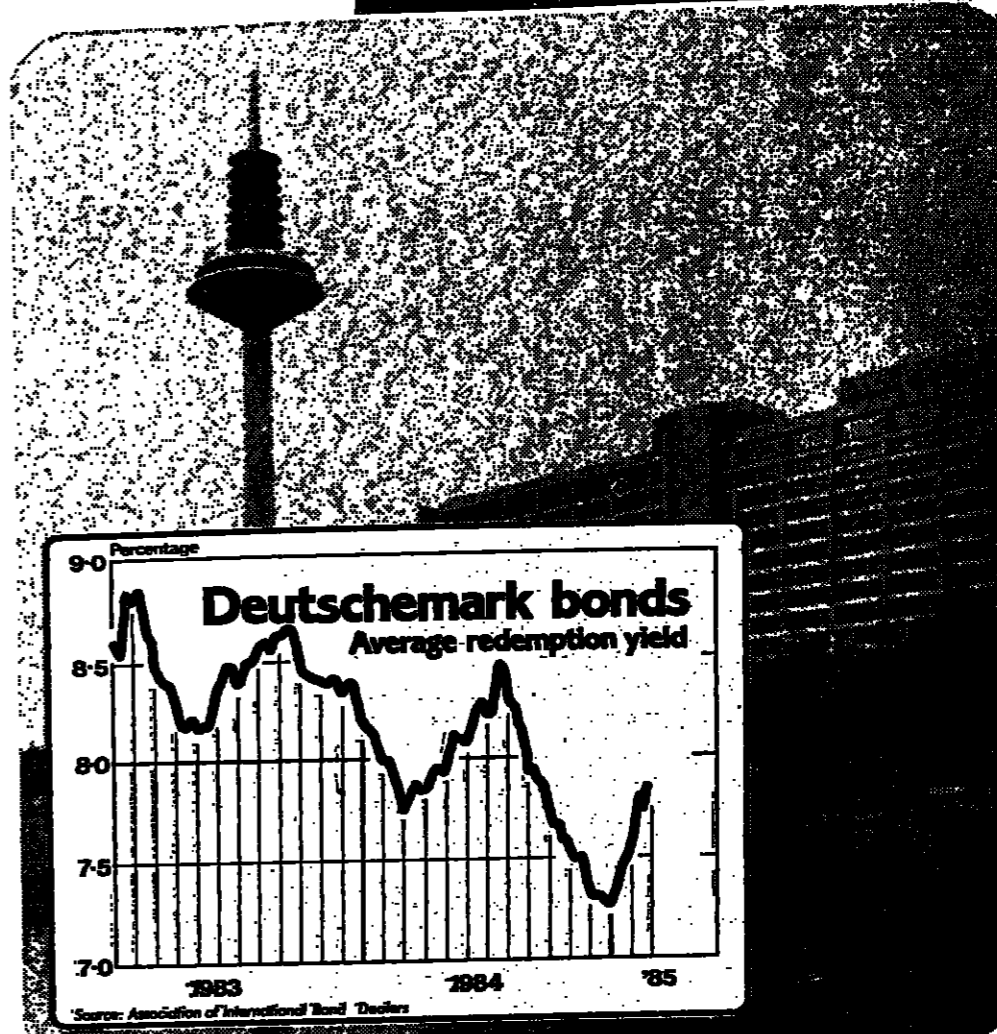
March 6 with a coupon around 10 points higher than had originally been expected.

The latest calendar has been set to raise a total of DM 1.3bn through fixed rate issues, about half the monthly average of issues during the autumn last year when the market was strong. January's total of DM 3.9bn, which contributed to the market's overloading and consequent issue ban, came at just the time when the market was weakening.

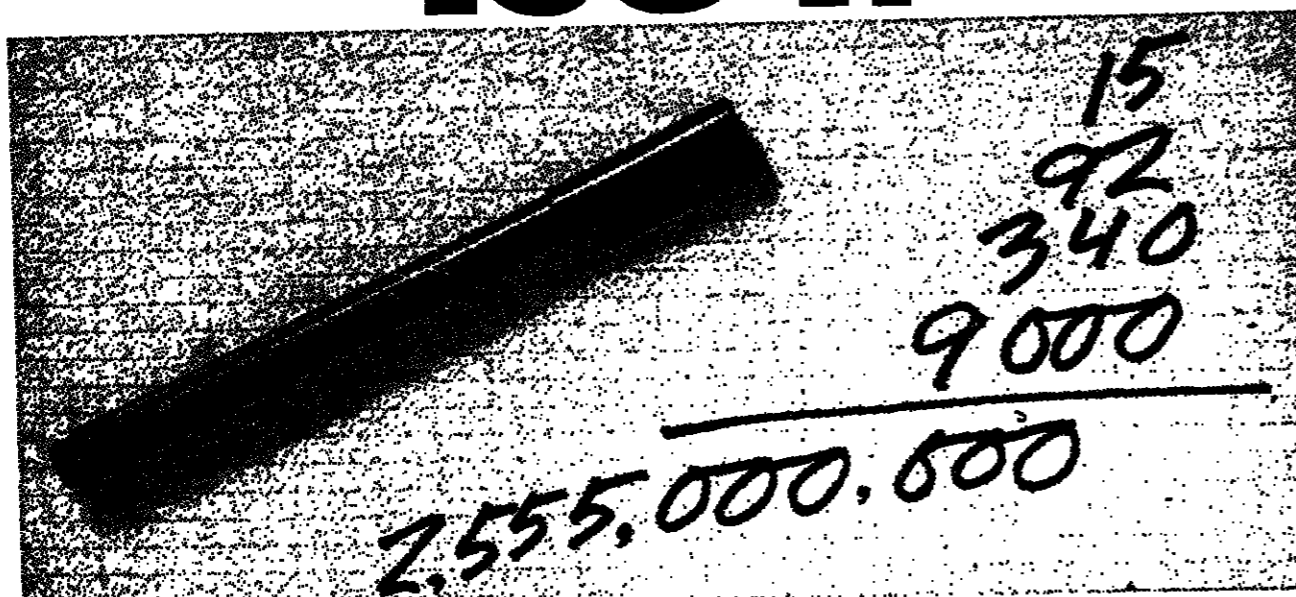
If foreign banks had been allowed to bring new issues, the amount raised in January might have been yet higher, and the chances of agreeing a halt much lower.

Discussions over the potential changes are at an early stage and action is not likely until later this year.

The authorities have also resisted the issue of bonds with a floating interest rate. The country's low and stable inflation rate has, in the past, limited demand for 8-fifties. But this, too, could change in response to more volatile interest rates.



Summing up 1984.



1984 was an eventful year for Saab-Scania. We introduced a new car generation — the Saab 9000. We also introduced a new truck and bus series — the Scania 92. Deliveries to customers of the airliner Saab-Fairchild 340 and the anti-ship missile RBS15 started.

Also from a financial point of view, 1984 was a record year for the Saab-Scania Group. Sales, income, profitability and solvency improved once more. The fact that we increased our competitiveness both in Sweden and abroad is clearly shown in our Annual Report:

Consolidated sales increased during 1984 by 25% to SEK 25,956 m, the foreign markets accounting for 62%. Income before appropriations and taxes improved by 26% to SEK 2,555 m corresponding to 9.8% of total sales. Pre-tax return on total assets rose to 16.4% (15.8). The corresponding return, calculated on total assets, non-interest bearing liabilities excluded, amounted to 23.7% (22.3). The financial position of the Group was further strengthened and the solvency ratio amounted to 49% (48). The profit per share after full taxes was SEK 56.35 (43.15).

Capital expenditures for property, plant and equipment totalled SEK 1,853, an increase of 62% compared with the year before. In addition, we invested SEK 1,905 m (1,623) in development and research.

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Going through a sticky patch

Canadian Dollar Bonds

PETER MONTAGNON

CANADIAN dollar issues were last year one of the very few instruments in the Eurobond market that came anywhere near matching the appeal of the mighty U.S. currency. While currency adjusted returns in most major European currencies were negative, holders of Canadian dollar bonds could have earned an overall return in U.S. currency of 8.1 per cent in 1984, according to the U.S. investment house Salomon Brothers.

At the same time the volume of new issues doubled to the equivalent of US\$2.2bn. Salomon Brothers states in its annual review of world bond markets.

In the first two months of this year new issue volume was also running apace which suggests that last year's total could easily be matched in 1985. But these figures mask the fact that the Canadian dollar

is currently going through a very sticky patch caused largely by the renewed sharp decline of the Canadian currency against its U.S. counterpart.

In early March the Bank of Canada was forced to draw heavily on its standby credit lines from commercial banks to support the currency exchange markets as it neared the psychologically damaging level of 70 U.S. cents.

That coupled with the general oversupply of paper in the Eurobond market left many of the most recent issues languishing at very heavy discounts. Even a recent 12 per cent issue from the European Investment Bank traded down to a discount of some 5 per cent on its 100 per cent issue price in the first week of March, suggesting that

Canadian issues have some way to go before the market can take off again. For the fact is that investor behaviour in the Euro-Canadian dollar bond market has changed over the past year. Traditionally this has been a market dominated by retail investors in the Benelux countries who were

attracted by high nominal returns — normally exceeding those available in the much larger U.S. dollar sector of the bond markets.

Last year, however, two things happened. First the yields on domestic Canadian dollar bonds dropped below those available on U.S. treasury issues which had the effect of eliminating the coupon differential between the two currencies in the Eurobond market. Second, other investors, who are more currency conscious than those in the Benelux area, latched on to the fact that Canadian dollars offered a high yield alternative to the U.S. currency.

While the Benelux investors who are more coupon orientated backed away, these buyers, mainly in Germany and Austria and to a certain extent in Switzerland, stepped up their purchases of Canadian dollar instruments as part of their diversification out of the overly strong U.S. currency.

Canadian bankers reckon that some 60 per cent of new issues are now bought by buyers in Germany and Austria, 20 per

cent by buyers in Switzerland and only around 10 per cent by the traditional buyers in the Benelux region.

That means the new issue market is now above all currency driven, and it explains why the market is now in the doldrums after the latest fall of the Canadian unit.

Secondary market trading continues to show good volume, however, partly because Canadian institutions themselves have become much more active players, seeking arbitrage opportunities between the Eurodollar and their own domestic market.

At the same time bankers report growing interest in Canadian dollar bonds from the Far East with Japanese buyers particularly moving into both domestic and Euro-Canadian dollar bonds.

But for this process to accelerate there needs to be a revival of confidence in the currency itself, coupons may have to rise, at least relative to those on U.S. dollar issues, and the market needs time to absorb the glut of issues still hanging over from the start of the year.

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